DIXIE BRANDS INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Expressed in United States Dollars)

DIXIE BRANDS INC. AND SUBSIDIARIES

Management's Responsibility for Financial Reporting

To the Shareholders of Dixie Brands Inc. and its Subsidiaries:

The accompanying consolidated financial statements and other financial information in this annual report were prepared by management of Dixie Brands, Inc. and Subsidiaries (collectively, the "Company"), and reviewed and approved by the Board of Directors.

Management is responsible for the consolidated financial statements and believes that they fairly present the Company's financial condition and results of operations in conformity with International Financial Reporting Standards. Management has included in the Company's consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of consolidated financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These consolidated financial statements have been audited by the Company's auditors, MNP LLP, and their report is presented herein.

Charles Smith (signed)	Jared Lanser (signed)
Chief Executive Officer	Chief Financial Officer

June 12, 2020

DIXIE BRANDS INC. AND SUBSIDIARIES

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Independent Auditor's Report

To the Shareholders of Dixie Brands Inc.:

Opinion

We have audited the consolidated financial statements of Dixie Brands Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of operations, changes in shareholders' equity (deficit) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss and comprehensive loss of $20,439,016 and used cash in operating activities of $14,386,299 during the year ended December 31, 2019 and, as of that date, the Company's current liabilities exceeded current assets by $6,479,033. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Sandra Alison Solecki.

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

June 12, 2020 — Licensed Public Accountants

MNP

DIXIE BRANDS INC. AND SUBSIDIARIES
Consolidated Statements of Financial Position
As at December 31, 2019 and 2018

		2019	2018
ASSETS			
Cash		$ 551,255	$ 18,361,113
Accounts Receivable, net		3,160,367	2,266,733
Deferred Contract Costs		298,120	-
Inventories	*Note 5*	2,368,484	950,938
Advances to Affiliates	*Note 4*	606,019	-
Prepaid Expenses and Other Receivables		397,510	411,295
Total Current Assets		**7,381,755**	**21,990,079**
Related Party Advances and Notes Receivable, net	*Note 12*	1,188,084	1,274,444
Property and Equipment, net	*Note 6*	739,446	959,374
Intangible Assets, net	*Note 7*	419,449	675,275
TOTAL ASSETS		**$ 9,728,734**	**$ 24,899,172**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Accounts Payable		$ 2,378,214	$ 1,099,298
Accrued Payroll		272,556	276,426
Other Accrued Liabilities		7,860,018	2,574,699
Prepaid License Fees	*Note 8*	750,000	4,000,000
Notes Payable, Current Portion	*Note 9*	2,600,000	775,000
Total Current Liabilities		**13,860,788**	**8,725,423**
Derivative Liabilities	*Note 10*	-	238,100
Total Liabilities		**13,860,788**	**8,963,523**
SHAREHOLDERS' EQUITY			
Share Capital	*Note 11*	$ 41,561,241	$ 40,226,961
Common Shares to be Issued	*Note 11*	-	250,000
Contributed Surplus	*Note 11*	7,313,599	8,506,705
Accumulated Deficit		(51,450,999)	(31,310,910)
Non-Controlling Interest	*Note 13*	(1,555,895)	(1,737,107)
Total Shareholders' Equity		**(4,132,054)**	**15,935,649**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 9,728,734**	**$ 24,899,172**

Nature of Operations and Going Concern (Note 1)
Commitments and Contingencies (Note 19)
Subsequent Events (Note 20)

Approved on behalf of the Board on June 12, 2020

"Charles Smith" (Signed)
Director

"Jared Lanser" (Signed)
Chief Financial Officer

The accompanying notes are an integral part of these consolidated financial statements.

DIXIE BRANDS INC. AND SUBSIDIARIES

Consolidated Statements of Operations

For the Years Ended December 31, 2019 and 2018

		2019	2018
Revenues	*Note 15*	$ 11,096,959	$ 5,791,451
Cost of Goods Sold		6,564,698	2,773,549
Gross Profit		4,532,261	3,017,902
Expenses:			
General and Administrative	*Note 16*	16,867,144	14,741,237
Sales and Marketing		5,831,479	1,189,618
Depreciation	*Note 6*	513,978	196,904
Total Expenses		**23,212,601**	**16,127,759**
Loss From Operations		**(18,680,340)**	**(13,109,857)**
Other Expense:			
Interest Expense	*Note 9*	2,034,926	644,598
Change in Fair Value of Derivative Liabilities	*Note 10*	(238,100)	(542,532)
Listing Expense	*Note 3*	-	6,695,137
Debt Settlement Expense	*Note 11*	-	1,535,015
Other		(38,150)	(446,902)
Total Other Expense		**1,758,676**	**8,128,494**
Net Loss and Comprehensive Loss Before Non-Controlling Interest		**(20,439,016)**	**(21,238,351)**
Non-Controlling Interest	*Note 13*	**(298,927)**	**(945,293)**
Net Loss and Comprehensive Loss Attributable to the Company		**$ (20,140,089)**	**$ (20,293,058)**
Earnings (Loss) Per Share - Basic and Diluted	*Note 14*	**$ (0.16)**	**$ (0.36)**
Attributable to Dixie Brands Inc.		$ (0.16)	$ (0.35)
Attributable to Non-Controlling Interest		$ (0.00)	$ (0.01)
Weighted-Average Shares Outstanding - Basic and Diluted	*Note 14*	**125,862,932**	**58,349,725**

The accompanying notes are an integral part of these consolidated financial statements.

DIXIE BRANDS INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity (Deficit)

For the Years Ended December 31, 2019 and 2018

		Atributable to the shareholders of the Company									
		Share Capital								Non-	TOTAL
		Common Shares #	Common Shares $	Shares to be issued #	Shares to be issued $	Preferred Shares #	Preferred Shares $	Contributed Surplus	Accumulated Deficit	Controlling Interest	SHAREHOLDERS' EQUITY
BALANCE AS OF DECEMBER 31, 2017		43,685,463	8,959,408					34,280	(10,727,852)	(478,369)	(2,212,533)
Adjustments Related to the Adoption of IFRS 9									(290,000)		(290,000)
Net Loss									(20,293,058)	(945,293)	(21,238,351)
Series B Issuance	*Note 11*					1,090,247	4,000,000				4,000,000
Series B Conversion	*Note 11*	33,986,742	4,000,000			(1,090,247)	(4,000,000)				-
Series C Issuance	*Note 11*	25,905,175	14,378,457					5,255,030			19,633,487
Issuance of Warrants								400,569			400,569
Academy Common Shares on Reverse Take-Over	*Note 3*	6,640,300	6,640,301					94,456			6,734,757
Exercise of ACA Stock Options	*Note 11*	75,000	70,842					(70,842)			-
Repurchase of Treasury Stock		(474,075)	(550,000)					-			(550,000)
Exercise of Warrants	*Note 11*	6,205,505	1,232,638					(406,194)			826,444
Incentive Share Compensation		2,673,615	1,574,291					-			1,574,291
Debt Converstion		1,613,130	1,424,025					(14,319)			1,409,706
DBFN Convertible Debt		3,085,870	2,059,199					850,945		(313,445)	2,596,699
Issuance of Treasury Stock		339,838	300,000	283,202	250,000			-			550,000
Stock Award	*Note 11*	1,116,710	137,800								137,800
Stock Option	*Note 11*							2,362,780			2,362,780
BALANCE AS OF DECEMBER 31, 2018		124,853,273	$ 40,226,961	283,202	$ 250,000	-	-	$ 8,506,705	$ (31,310,910)	$ (1,737,107)	$ 15,935,649
Net Loss									(20,140,089)	(298,927)	(20,439,016)
Exercise of Stock Options	*Note 11*	575,000	513,968					(172,968)			341,000
Stock Award	*Note 11*	781,250	570,312					-			570,312
Stock Option	*Note 11*							6,946,603			6,946,603
Therabis change in NCI	*Note 3*							(480,139)		480,139	-
Purchase of Therabis	*Note 3*							(7,486,602)			(7,486,602)
Shares Issued	*Note 11*	283,202	250,000	(283,202)	(250,000)			-			-
BALANCE AS OF DECEMBER 31, 2019		126,492,725	$ 41,561,241	-	$ -	-	-	$ 7,313,599	$ (51,450,999)	$ (1,555,895)	$ (4,132,054)

The accompanying notes are an integral part of these consolidated financial statements.

DIXIE BRANDS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018

		2019	2018
OPERATING ACTIVITIES			
Net Loss		$ (20,439,016)	$ (21,238,351)
Adjustments to Reconcile Net Loss to			
Net Cash Used in Operating Activities:			
Depreciation and Amortization	*Note 6, 7*	769,804	396,690
Amortization of Debt Discount		-	159,212
Change in Fair Value of Derivative Liabilities	*Note 10*	(238,100)	(542,532)
Legal Fees Paid Via Issuance of Warrants		-	393,952
Incentive Share-Based Payment	*Note 11*	570,312	1,712,091
Accretion Income		(160,827)	-
Listing Expenses	*Note 3*	-	6,695,137
Stock Incentive Expense for Compensation	*Note 11*	6,450,466	2,362,779
Stock Incentive Expense for Consulting Fees	*Note 11*	496,137	-
Change in Credit Loss Reserve on Accounts Receivable, Advances and Related Party Advances	*Note 17*	(103,106)	1,910,484
Loss on Disposal of Property and Equipment	*Note 6*	53,328	32,703
Loss on Conversion of DBFN Shares		-	28,500
Impairment on Contract Asset		-	243,178
Amortization of Contract Asset		-	39,222
DBI Warrants cancelled on repurchase of debt		-	1,512,312
Changes in:			
Accounts Receivable		(707,179)	(386,159)
Deferred Contract Costs		(298,120)	-
Lease Receivable		-	21,405
Inventories	*Note 5*	(1,417,546)	(441,230)
Prepaid Expenses and Other Receivables		13,785	(377,330)
Accounts Payable		1,278,916	152,349
Accrued Payroll		(3,870)	170,956
Prepaid License Fees	*Note 8*	(3,250,000)	-
Other Accrued Liabilities		2,598,717	3,867,759
NET CASH USED IN OPERATING ACTIVITIES		(14,386,299)	(3,286,873)
INVESTING ACTIVITIES			
Purchases of Property and Equipment	*Note 6*	(347,378)	(288,934)
Purchase of Intangibles	*Note 7*	-	(297,491)
Additions to Related Party Advances and Notes Receivable	*Note 12*	(561,637)	(990,354)
Payments Received on Notes Receivable		725,475	-
Advance to Affiliates	*Note 4*	(606,019)	-
Investment in Subsidiary	*Note 3*	(4,800,000)	-
NET CASH USED IN INVESTING ACTIVITIES		(5,589,559)	(1,576,779)
FINANCING ACTIVITIES			
Proceeds from Share Issuances		-	25,419,539
Cash Received from the Acquisition of Academy Explorations		-	46,559
Proceeds from exercise of stock options	*Note 11*	341,000	826,444
Proceeds from Issuance of Notes Payable	*Note 9*	3,000,000	350,000
Payments on Notes Payable	*Note 9*	(1,175,000)	(3,395,000)
Payments on Equipment Lease		-	(66,629)
CASH FROM FINANCING ACTIVITIES		2,166,000	23,180,913
NET (DECREASE) INCREASE IN CASH		(17,809,858)	18,317,261
CASH, BEGINNING OF YEAR		18,361,113	43,852
CASH, END OF YEAR		$ 551,255	$ 18,361,113
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash Paid for Interest		$ 102,173	$ 55,200
Cash Paid for Taxes		$ -	$ -

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Dixie Brands Inc. ("DBI" or the "Company"), formerly known as Academy Explorations Limited ("Academy"), was incorporated under the Business Corporations Act (British Columbia) on July 20, 1970. The Company's Subordinate Voting Shares ("SVS") are listed on the Canadian Securities Exchange under the symbol "DIXI.U", the Frankfurt stock exchange under "0QV" and the OTCQX Best Market under "DXBRF". The head office and principal address of the Company is 4990 Oakland Street, Denver, Colorado 80239. The Company's registered and records office address is 3400 One First Canadian Place, Toronto, Ontario M5X 1B4. The Company operates through its wholly-owned subsidiary, Dixie Brands (USA), Inc, a Delaware corporation ("OpCo"). DBI has seven other subsidiaries: (i) Therabis, LLC ("Therabis") (85% ownership); (ii) Aceso Wellness, LLC ("Aceso") (100% ownership); (iii) DB Finance, LLC ("DBFN") (92% ownership); (iv) DB Products Nevada, LLC ("DBPN") (70% ownership); (v) DB Michigan, LLC ("DBMI") (100% ownership); (vi) DBAT Logistics, LLC ("DBAT") (100% ownership) and (vii) DB Oklahoma, LLC ("DBOK") (100% ownership).

Dixie Brands, Inc., a Delaware corporation ("USA Inc."), and Academy entered into a definitive agreement (the "Amalgamation Agreement") by and among Academy, Dixie Brands Acquisition, Inc. ("Amalco"), and USA Inc. in respect of the Amalgamation (as defined below). Pursuant to the Amalgamation Agreement, on November 27, 2018, Academy agreed to acquire all the issued and outstanding common shares in the capital of USA Inc. in exchange for SVS of Academy by way of a "three-cornered" amalgamation (the "Amalgamation").

The Amalgamation resulted in USA Inc. merging with AmalCo and becoming OpCo and OpCo becoming a wholly-owned subsidiary of DBI.

References herein to the "Company" prior to November 27, 2018 means the USA Inc.

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

Going Concern

These 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. The Company had net loss and comprehensive loss in the years ended December 31, 2019 and 2018 of $20,439,016 and $21,238,351, respectively. Current liabilities exceeded current assets by $6,479,033 at December 31, 2019 and current assets exceeded current liabilities by $13,264,656 at December 31, 2018. The Company's cash used in operations was $14,386,299 and $3,286,873 for years ended December 31, 2019 and 2018. The Company's accumulated deficit for the years ended December 31, 2019 and 2018 were $51,450,999 and $31,310,910.

The Company's ability to continue in the normal course of operations is dependent on its ability to increase revenues among its product lines, reduce expenses and raise additional debt or equity financing. There are no assurances that the Company will be successful in achieving these goals, however the Company does have a definitive agreement signed with BR Brands on April 22, 2020 (Note 20). The existence of these material uncertainties may cast significant doubt on the Company’s ability to continue as going concern. These consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements of the Company 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 (“IFRIC”) in effect as at January 1, 2019.

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on June 12, 2020.

Basis of Measurement

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

Functional Currency

Dixie Brands Inc., formerly known as Academy was incorporated in British Columbia, Canada. All other consolidated subsidiaries were incorporated in the United States.

For entities with functional currencies other than the presentation currency (U.S. dollar), assets and liabilities are translated to U.S. dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. All resulting currency translation gains or losses from translating the consolidated financial statements from the functional currency to the presentation currency are recorded in other comprehensive loss in the consolidated statements of operations..

Transactions entered into in a currency other than the currency of the primary economic environment in which it operates (their "functional currency") are recorded at the rates prevailing when the transactions occur except depreciation and amortization which are translated at the rates of exchange applicable to the related assets, with any gains or losses recognized in the consolidated statements of operations. Foreign currency monetary assets and liabilities are translated at current rates of exchange with the resulting gain or losses recognized in the consolidated statements of loss. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognized immediately in net loss. Non-monetary assets and liabilities are translated using the historical exchange rates. Nonmonetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Functional currency of Dixie Brands Inc. and all subsidiaries is U.S. dollar.

Fair Value Measurements

Certain of the Company's assets and liabilities are measured at fair value. In estimating fair value, the Company uses market-observable data to the extent it is available.

Basis of Consolidation

Subsidiaries are entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is acquired by the Company and they are deconsolidated from the date that control ceases. The consolidated financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. All inter-company balances, revenues and expenses and earnings and losses resulting from inter-company transactions are eliminated on consolidation.

Non-controlling interest in the net assets of consolidated subsidiaries are a separate component of the Company's equity. Non-controlling interests consist of the non-controlling interests on the date of the original acquisition plus the non-controlling interests' share of changes in equity since the date of acquisition. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

The accompanying consolidated financial statements include the accounts of the following entities, DBI, Therabis, Aceso, DBFN, DBPN, DBMI, DBAT, DBOK and USA Inc.

Cash

Cash include cash deposits in financial institutions and other deposits that are readily convertible into cash with an original maturity of less than three months.

Inventories

Inventories purchased from third parties, which include proprietary ingredients, finished goods, and packaging and supplies, are valued using the first in first out ("FIFO") costing method at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell. The Company reviews inventories for obsolete, redundant and slow-moving goods and any such inventories identified are written down to net realizable value.

Deferred Contract Asset

The Company carries deferred contract assets for the valuation of raw materials and ingredients that affiliates have used in production of products that are not recognized as revenue based on the contract until the affiliate has sold the products. The deferred contract asset is valued using the FIFO costing method at the lower of cost or net realizable value of the raw materials and ingredients.

Property and Equipment, net

Property and equipment are stated at cost, net of accumulated depreciation and impairment losses, if any. Expenditures that materially increase the life of the assets are capitalized. Ordinary repairs and maintenance, supplies, and property equipment with a cost of $1,000 or less are expensed as incurred. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset using the following terms and methods:

Furniture and Fixtures	5 – 7 Years
Equipment	5 - 7 Years
Computer Equipment	5 Years
Leasehold Improvements	Lesser of the lease term or useful life

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively if appropriate. An item of equipment is retired upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on sale or retirement of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the consolidated statements of operations in the year the asset is retired.

Intangible Assets

Intangible assets are recorded at cost, less accumulated amortization and impairment losses, if any. Intangible assets consist of license agreements purchased from Left Bank LLC ("Left Bank") (see Note 12) and others for the right to recipes and methodologies. Amortization is recorded on a straight-line basis over their estimated useful lives from July 1, 2018 to June 30, 2023, which do not exceed the contractual period, if any. The estimated useful lives, residual values, and amortization methods are reviewed at each year-end, and any changes in estimates are accounted for prospectively. At December 31, 2019 and 2018, the Company did not recognize any impairment losses.

Income Taxes

Current tax expense is recognized in the consolidated statements of operations based on the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end. For the years ended December 31, 2019 and 2018, DBI is taxed as a United States C-Corporation. In addition to DBI's income, all of the subsidiaries of DBI are treated as limited liability companies and, accordingly, DBI's proportionate share of taxable income and losses are flowed through to DBI.

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company recognizes the tax benefit from an uncertain tax position only if it is probable that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that is probable of being realized upon ultimate settlement. The amount of unrecognized tax benefits is adjusted as appropriate for changes in facts and circumstances, such as significant amendments to existing tax law, new regulations or interpretations by the taxing authorities, new information obtained during a tax examination, or resolution of an examination.

Revenue Recognition

Revenue is recognized at the fair value of consideration received or receivable. Revenue from licenses is recognized at the transfer of utility to the customer and when all the following conditions have been satisfied:

- The licensor makes the intellectual property available to the customer;
- The price is fixed and determinable;
- The license period begins;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the customer; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

This also applies to instances of license renewal and term extension. License revenue is based on a percentage of the sale of the product by a manufacturing affiliate to a dispensary customer at a price determined by competitive market conditions. Given these provisions, management has concluded the price is not fixed and determinable at the time the licensed formula is made available. Accordingly, revenue from license fees is not recognized until the manufacturer sells the finished product.

Revenue from the sale of goods is recognized when all the following conditions have been satisfied, which are generally met once the products are shipped to customers:

- The Company has transferred the significant risks and rewards of ownership of the goods to the customer;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the customer; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Lease Accounting

As of January 1, 2019, the Company adopted IFRS 16 Leases, which generally requires the recognition of both operating and financial lease liabilities with corresponding right-of use assets on the consolidated statement of financial position. Refer to "New Standards Adopted in the Current Year" below.

Provisions for Contingencies

Provisions for contingencies include mainly legal and other claims. A provision is recognized when the Company has a legal or constructive obligation as a result of a past event and it is probable that settlement of the obligation will require a financial payment or cause a financial loss, and a reliable estimate of the amount of the obligation can be made.

If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recorded in the consolidated statement of financial position as a separate asset, but only if it is virtually certain that the reimbursement will be received.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as a financing expense.

Research and Development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probably, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized in the consolidated statements of operations as incurred.

Share-based Compensation

The Company has a share option plan of which further details are given in Note 11.

The Company measures all goods and services received in exchange for the grant of any share-based payments at their fair value unless the fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods and services received, the Company shall measure their value indirectly by reference to the fair value of the equity instruments granted. For transactions with employees and others providing similar services, the Company measures the fair value of the services by reference to the fair value of the equity instruments granted.

Fair value is measured using the Black-Scholes option pricing model. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

The dilutive effect of outstanding options, warrants and convertible debentures is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 14).

Non-controlling Interest

Non-controlling interest ("NCI") represents equity interests owned by parties that are not shareholders of the ultimate parent. Non-controlling interest is to be initially measured either at fair value or at the noncontrolling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement is made on a transaction-by-transaction basis. The share of net assets attributable to non-controlling interests is presented as a component of equity. Their share of net income or loss is recognized directly in equity. Changes in the parent company's ownership interest that do not result in a loss of control are accounted for as equity transactions.

Earnings (Loss) Per Share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise convertible debentures, warrants and share options issued.

Financial Instruments

The Company accounts for financial instruments according to IFRS 9 "*Financial Instruments*" ("IFRS 9), which requires all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. IFRS 9 also requires a single, forward-looking expected loss impairment model.

Classification

IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, fair value through profit and loss ("FVTPL") and fair value through other comprehensive income. The Company's financial assets are measured at amortized cost or FVTPL.

The Company determines classification of financial assets at initial recognition. The Company's accounting policy in respect to its financial instruments is as follows:

(i) Financial assets are classified and measured at FVTPL unless they meet the following criteria for amortized cost:

- The Company plans to hold the financial assets in order to collect contractual cash flows; and
- Payments received on the financial assets are solely payments of principal and interest on the principal amount outstanding.

(ii) Financial liabilities - non-derivative financial liabilities are measured at amortized cost unless they have been designated as FVTPL. Derivative liabilities are initially measured at FVTPL, with subsequent changes in fair market value recognized in the Consolidated Statements of Operations.

(iii) Compound financial instruments - the component parts of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability is measured separately using an estimated market rate for a similar liability without an equity component and the residual is allocated to the conversion option. The liability component is subsequently recognized on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is recognized and included in equity and is not subsequently re-measured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share capital. Transaction costs are divided between the liability and equity components in proportion to their values.

Accounts Receivable

Accounts receivables are carried at original invoice amount less a provision for expected credit losses ("ECL") based on a review of all outstanding amounts on a monthly basis. Management determines the ECL by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. A trade receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days.

Provision for Expected Credit Losses

The Company performs impairment testing for accounts receivable in accordance with IFRS 9. The ECL model requires considerable judgement, including consideration of how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. IFRS 9 outlines a three-stage approach to recognizing ECLs which is intended to reflect the increase in credit risks of a financial instrument based on 1) 12-month expected credit losses or 2) lifetime expected credit losses. The Company measures provision for ECLs on an amount equal to lifetime ECLs. The Company applies the simplified approach to determine ECLs on trade receivables by using a provision matrix based on historical credit loss experiences. The historical results were used to calculate the run rates of default which were then applied over the expected life of the trade receivables, adjusted for forward looking estimates.

Significant Accounting Judgments Estimates and Assumptions

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

Estimated Credit Loss Provision

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset at the reporting date with the risk of default at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses do not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off. Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost. The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

Estimated Useful Lives and Depreciation of Property and Equipment

Depreciation of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgement.

Estimated Useful Lives and Amortization of Intangible Assets

Amortization of intangible assets is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible asset acquisitions, changes in useful lives or other relevant factors or changes.

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Impairment

The carrying amount of the Company's non-financial assets (which include property and equipment and intangible assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the consolidated statement of operations.

Derivative Liabilities

The Company uses the fair-value method of accounting for derivative liabilities and such liabilities are re-measured at each reporting date with changes in fair value recorded in the period incurred. The fair value is estimated using a Monte Carlo simulation model. Critical estimates and assumptions used in the model are discussed in Note 10.

Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. It is possible, however, that at some future date, an additional liability could result from audits by taxing authorities. If the final outcome of these tax related matters is different from the amounts that are initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

IRC Section 280E

As the Company derives revenue from third parties in the cannabis industry and taking into account the potential impact of ongoing US tax cases that interpret the application of IRC Section 280E, the Company may be subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to the cost of producing the products or cost of production. This results in permanent differences between ordinary and necessary business expenses deemed unallowable under IRC Section 280E. The Company does not believe it is subject to the 280E. However, similar to all ancillary companies in the cannabis sector, there is a general risk that the regulators may consider application of Section 280E.

Adoption of New Accounting Standards

IFRS 16 Leases [“IFRS 16”]

The Company adopted IFRS 16 Leases on January 1, 2019, which introduces a new approach to lease accounting. The Company adopted the standard using the modified retrospective approach, which does not require restatement of prior period financial information, as it recognizes the cumulative impact on the opening consolidated statement of financial position and applies the standard prospectively. Accordingly, the comparative information in these consolidated financial statements is not restated.

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy has been applied to contracts entered into, or modified, on or after January 1, 2019.

Effective January 1, 2019, the IFRS 16 transition date, the Company elected to use the following practical expedients under the modified retrospective transition approach:

- Leases with lease terms of less than twelve months (“short-term leases”) and leases of low-value assets (“low-value leases”) that have been identified at transition, were not recognized in the consolidated statement of financial position; the company’s leases in 2019 were all considered “short-term” or “low-value” and the related expense totaled $294,894;
- Right-of-use assets on transition were measured at the amount equal to the lease liabilities at transition, adjusted by the amount of any prepaid or accrued lease payments;
- For certain leases having associated initial direct costs, the Company, at initial measurement on transition, excluded these direct costs from the measurement of the right-of-use assets; and
- Any provision for onerous lease contracts previously recognized at the date of adoption of IFRS 16, has been applied to the associated right-of-use asset recognized upon transition.

Where the Company is a lessee, a right-of-use asset representing the right to use the underlying asset with a corresponding lease liability is recognized when the leased asset becomes available for use by the Company. The right-of-use asset is recognized at cost and is depreciated on a straight-line basis over the shorter of the estimated useful life of the asset and the lease term. The cost of the right-of-use asset is based on the following:

- the amount of initial recognition of related lease liability;
- adjusted by any lease payments made on or before inception of the lease;
- increased by any initial direct costs incurred; and
- decreased by lease incentives received and any costs to dismantle the leased asset.

The lease term includes consideration of an option to extend or terminate if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease liabilities are initially recognized at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. In the situation where the implicit interest rate in the lease is not readily determined, the Company uses judgement to estimate the incremental borrowing rate for discounting the lease payments. The Company's incremental borrowing rate generally reflects the interest rate that the Company would have to pay to borrow a similar amount at a similar term and with a similar security. The Company estimates the lease term by considering the facts and circumstances that create an economic incentive to exercise an extension or termination option. Certain qualitative and quantitative assumptions are used when evaluating these incentives.

Subsequent to recognition, lease liabilities are measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured when there is a change in future lease payments arising mainly from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, renewal or termination option. The payments related to short-term leases or low-value leases are recognized and included within selling, general and administrative costs over the lease term in the consolidated statements of operations.

The Company's consolidated financial statements were not impacted by the adoption of IFRS 16 Leases in relation to lessor accounting. Lessors will continue with the dual classification model for recognized leases with the resultant accounting remaining unchanged from IAS 17 Leases.

3. SIGNIFICANT TRANSACTIONS

Reverse Take Over

As of September 28, 2018, the Company entered into a definitive agreement (the "Transaction") with Academy Explorations Limited ("Academy") pursuant to which the Company would affect a Reverse Takeover Transaction ("RTO") of Academy. Immediately prior to the Transaction, Academy completed a share consolidation, resulting in an aggregate of approximately 26,567,234 post-consolidation common shares outstanding pre-Transaction, and a name change to Dixie Brands Inc. The former shareholders of Academy retained 6,641,807 shares in the continuing entity which is accounted for as a deemed issuance of shares.

As a result, non-cash listing expense of $6,695,137 has been recorded in the consolidated statements of operations. As part of the Transaction, unit holders of Dixie Brands Inc. exchanged their ownership for Class B Redeemable shares in Dixie Brands Inc. (the legal subsidiary and accounting acquirer). The Transaction was completed on November 27, 2018 and the Class B Subordinate Voting Shares of the Company began trading on the Canadian Securities Exchange under the ticker "DIXI" on November 29, 2018.

Based on the consolidated statements of financial position of Academy at the time of the RTO, the net assets at estimated fair value that were acquired by the Company were listed as follows:

Consideration		
Shares - 6,640,301 shares (Note 11)	$	6,640,301
Options - 100,000 stock options (Note 11)		94,287
	$	6,734,588
Identifiable assets acquired		
Cash	$	46,559
Accounts receivable		130,996
Accounts payable		(138,104)
		39,451
Transaction cost		6,695,137
Total net identifiable assets and transaction costs	$	6,734,588

Khiron Joint Venture

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. has been established with 50% owned by each of the Company and Khiron. The purpose of the joint venture is to manufacture and distribute products in the Latin American market. Both parties are paying costs on behalf of the joint venture, the Company's payments related to activities is $144,520 for the year ended December 31, 2019. The joint venture was terminated on March 20, 2020.

Investment in Therabis

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 of $63,775. The initial closing payment was in the amount of $3,922,827 with a deferred closing payment in the amount of $3,500,000. The deferred closing payment has not been paid as of December 31, 2019 and began to accrue compounding interest at 3% per month from January 1, 2019 through May 1, 2019 and at 4.167% per month from May 2, 2019 through December 31, 2019, with an interest payable balance of $1,960,824 as of December 31, 2019. With this purchase, the Company holds an 85% ownership in Therabis, LLC. In addition, to the initial closing payment, the outstanding balance of the promissory notes of $877,173, of which principal totaling $775,000 and interest totaling $102,173 was paid.

4. ADVANCES TO AFFILATES

Advances to Affiliates consist of the following:

	2019	2018
Choice Labs, LLC	$ 282,000	$ -
Lyrical, LLC	324,019	-
Total Advance to Affiliates	$ 606,019	$ -

5. INVENTORIES

Inventories consist of the following:

	2019	2018
Raw Materials:		
Materials	$ 791,470	$ 255,850
Ingredients	250,296	460,391
Total Raw Materials	1,041,766	716,241
Finished Goods	1,330,160	234,697
Less: Reserve on Inventory	(3,442)	-
Total Inventories	$ 2,368,484	$ 950,938

For the years ended December 31, 2019 and 2018, the cost of the inventory recognized as an expense and included in cost of goods sold was $1,901,051 and $1,400,536.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as at December 31, 2019:

	Furniture and Fixtures	Equipment	Computer Equipment	Leasehold Improvements	Total
Cost:					
December 31, 2018	$ 174,934	$ 850,000	$ 107,143	$ 508,378	$ 1,640,455
Additions	-	336,676	10,702	-	347,378
Disposals	-	(37,636)	(70,682)	-	(108,318)
December 31, 2019	174,934	1,149,040	47,163	508,378	1,879,515
Accumulated Depreciations:					
December 31, 2018	92,897	312,263	49,696	226,225	681,081
Depreciation	49,991	160,828	21,006	282,153	513,978
Disposals	-	(31,451)	(23,539)	-	(54,990)
December 31, 2019	$ 142,888	$ 441,640	$ 47,163	$ 508,378	$ 1,140,069
Net Book Value:					
December 31, 2018	$ 82,037	$ 537,737	$ 57,447	$ 282,153	$ 959,374
December 31, 2019	$ 32,046	$ 707,400	$ -	$ -	$ 739,446

In 2019, a loss of $53,328 was recorded in relation to disposals of computer equipment.

Property and equipment consist of the following as at December 31, 2018:

	Furniture and Fixtures	Equipment	Computer Equipment	Leasehold Improvements	Total
Cost:					
December 31, 2017	$ 174,934	$ 639,242	$ 64,643	$ 508,378	$ 1,387,197
Additions	-	246,434	42,500	-	288,934
Disposals	-	(35,676)	-	-	(35,676)
December 31, 2018	174,934	850,000	107,143	508,378	1,640,455
Accumulated Depreciations:					
December 31, 2017	67,907	211,244	37,345	170,654	487,150
Depreciation	24,991	103,993	12,349	55,571	196,904
Disposals	-	(2,973)	-	-	(2,973)
December 31, 2018	92,898	312,264	49,694	226,225	681,081
Carrying Amounts:					
December 31, 2017	$ 107,027	$ 427,998	$ 27,298	$ 337,724	$ 900,047
December 31, 2018	$ 82,037	$ 537,737	$ 57,447	$ 282,153	$ 959,374

In 2018, a loss of $32,703 was recorded in relation to disposal of equipment.

7. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Formula	License Agreement	Total Intangible Assets
Cost:			
December 31, 2018	$ -	$ 1,307,026	$ 1,307,026
Balance at December 31, 2019	$ -	$ 1,307,026	$ 1,307,026
Accumulated Amortization:			
December 31, 2018	$ -	$ 631,751	$ 631,751
Amortization	-	255,826	255,826
December 31, 2019	$ -	$ 887,577	$ 887,577
Net Book Value:			
December 31, 2018	$ -	$ 675,275	$ 675,275
December 31, 2019	$ -	$ 419,449	$ 419,449

	Formula	License Agreement	Total Intangible Assets
Cost:			
December 31, 2017	$ 45,000	$ 1,009,535	$ 1,054,535
Purchases	-	297,491	297,491
Disposals	(45,000)	-	(45,000)
Balance at December 31, 2018	$ -	$ 1,307,026	$ 1,307,026
Accumulated Amortization:			
December 31, 2017	$ 7,500	$ 440,965	$ 448,465
Amortization	9,000	190,786	199,786
Disposals	(16,500)	-	(16,500)
December 31, 2018	$ -	$ 631,751	$ 631,751
Net Book Value:			
December 31, 2017	$ 37,500	$ 568,570	$ 606,070
December 31, 2018	$ -	$ 675,275	$ 675,275

For the years ended December 31, 2019 and 2018, $255,826 and $199,786 amortization was recorded as part of cost of goods sold.

8. PREPAID LICENSE FEES

On May 7, 2018 Dixie Brands, Inc. entered into a license agreement with Auxly Cannabis Group Inc. ("Auxly") (formerly Cannabis Wheaton Income Corp.). The agreement grants Auxly the right to prepare, distribute, promote, and sell Dixie Brands, Inc. products. The license agreement is to expire, without notice on May 7, 2028, unless it has been earlier terminated, renewed or extended. The terms of the agreement may be extended by Auxly for two additional periods (5 years per period). Under the agreement, Auxly shall pay the Company a royalty fee of 7.5% of the gross revenues attributable to the sales of the Company's products. The total amount of the prepayment received was $4,000,000. In the event that "elixirs", "mints" and "chocolates" were not permitted under the Cannabis Act in Canada by December 31, 2018 (in a form and substance substantially similar to how licensor currently produces such products), the amount of the fee pre-payment shall immediately revert to the sum of $750,000 and Dixie Brands, Inc is required to return to Auxly any fee pre-payment, in excess of that amount.

On February 19, 2019, the Company repaid $3,250,000 of the $4,000,000 of prepaid license fees to Auxly as a result of "elixirs", "mints" and "chocolates" not being permitted under the Cannabis Act in Canada by December 31, 2018.

On March 12, 2019 the Company amended the initial agreement with Auxly to exclude the exclusive rights in Mexico and paid $375,000 for those rights.

9. NOTES PAYABLE

Notes payable consist of the following:

	December 31, 2019	December 31, 2018
Unsecured promissory note dated September 8, 2017, which matured on July 13, 2018; interest at rate of 8% per annum, paid quarterly. On May 14, 2018 this note extended to May 14, 2019. Payment in full is due on the maturity date of the note, the modified interest rate accrued at 12% per annum, payment is made quarterly. Payment in full was paid on January 2, 2019 which included principal, interest, and penalties. (1)	$ -	$ 250,000
Unsecured promissory note dated September 8, 2017, which matured on July 13, 2018; interest at rate of 8% per annum, paid quarterly. On May 14, 2018 this note extended to May 14, 2019. Payment in full is due on the maturity date of the note, the modified interest rate accrued at 12% per annum, payment is made quarterly. Payment in full was paid on January 2, 2019 which included principal, interest, and penalties. (1)	-	275,000
Unsecured promissory note dated May 14, 2018, with a maturity of May 14, 2019; payment in full was due on maturity date of note, interest at rate of 12% per annum, paid quarterly. Payment in full was paid on January 2, 2019 which included principal, interest, and penalties. (1)	-	250,000
Unsecured promissory note dated August 28, 2019, with a maturity of October 27, 2019; payment in full is due on maturity date of note, interest at rate of 12% per annum, to be paid along with principal on maturity date. The note is personally guaranteed by shares of an officer of the Company. (2)	600,000	-
Unsecured promissory note dated October 30, 2019, with a maturity of October 30, 2020; payment in full is due on maturity date of note, interest at rate of 10% per annum, to be paid along with principal on maturity date.	500,000	-
Unsecured promissory note dated November 11, 2019, with a maturity of November 11, 2020; payment in full is due on maturity date of note, interest at rate of 10% per annum, to be paid along with principal on maturity date.	500,000	-
Unsecured promissory note dated November 25, 2019, with a maturity of November 25, 2020; payment in full is due on maturity date of note, interest at rate of 10% per annum, to be paid along with principal on maturity date.	500,000	-
Unsecured promissory note dated December 23, 2019, with a maturity of December 23, 2020; payment in full is due on maturity date of note, interest at rate of 10% per annum, to be paid along with principal on maturity date. The note is personally guaranteed by shares of an officer of the Company.	500,000	-
Total Notes Payable	2,600,000	775,000
Less: Current Portion of Notes Payable	2,600,000	775,000
Notes Payable, Net of Current Portion	$ -	$ -

(1) In 2019, the Company settled promissory notes collectively totaling $775,000 with cash payments.

(2) On August 28, 2019 the Company received $1,000,000 in proceeds from a note with a maturity date of October 27, 2019. At December 31, 2019 the principal balance on the loan was $600,000.

For the years ended December 31, 2019 and 2018, the total interest expense incurred relating to notes payable was $2,034,115 and $644,598 respectively.

10. DERIVATIVE LIABILITIES

During the year ended December 31, 2018, the Company entered into a manufacturing agreement with one of its customers, Cypress Manufacturing Company ("Cypress"). Included in this manufacturing agreement, Cypress will be granted stock options ("Incentive Options Award") by the Company to purchase voting common stock as an incentive for meeting mutually agreed upon revenue targets, pursuant to the Company's Employee Stock Option Plan. Since the number of options to be granted is unknown, the instrument did not meet the "fixed for fixed" criteria under IAS 32 - Financial Instruments: Presentation ("IAS 32"). As such, the conversion option was classified as a derivative liability and accounted for at fair value through profit and loss ("FVTPL"). Key assumptions used in the valuation include an expected term of two years from the inception date. The fair value of the conversion option ("derivative liability") was valued at $282,400 on inception date (August 1, 2018), $238,100 on December 31, 2018, and revalued to $nil on December 31, 2019 using Monte Carlo simulations, with the following assumptions:

	Inception	December 31, 2018	December 31, 2019
Risk-free Rate	2.60%	2.59%	1.59%
Expected Dividend Yield	0%	0%	0%
Expected Term (in years)	1.5	1.08	0.25
Volatility	70%	74%	74%

The total change in the fair value of the derivative liabilities for the year ended December 31, 2019 and 2018, respectively, is $238,100 and $542,532

11. SHAREHOLDERS' EQUITY

Authorized share capital

The authorized share capital of the Company consists of the following:

(a) An unlimited number of Subordinate Voting Shares ("SVS" or "Common Shares") without par value.
(b) 500,000 Non-Participating Voting Shares without par value
(c) 1,090,247 Preferred Shares without par value, which were converted into Common Shares upon the closing of Series C financing

Each Common Share entitles the holder to one vote. Each Non-Participating Voting share entitles the holder to one hundred votes, voting together with Common Shares as a single class. Preferred share holders were not entitled to any votes.

As at December 31,2019, the Company had the following shares issued and outstanding:

(a) 126,492,725 Common Shares
(b) 500,000 Non-Participating Voting Shares

Share Transactions

During the year ended December 31, 2018, the Company had the following Share transactions.

Non-Participating Voting Shares

Before the reverse takeover ("RTO"), the Company issued 500,000 Non-Participating Voting Shares to management. These Non-Participating Shares have no economic value or rights to dividends. They were first issued in the form of management options, exercisable at $20 per Common Share and were later automatically exercised to Common Shares upon the RTO.

Series B Issuance

During the year ended December 31, 2018, the Company raised $4,000,000 in Series B financing through the issuance of 1,090,247 Preferred Shares (Pre-RTO shares). At the conclusion of Series C financing (defined below), 1,090,247 Preferred Shares were converted into 33,986,742 Common Shares.

As a part of the Series B financing, the Company incurred $792,948 of share issuance costs which have been paid with the issuance of 792,915 Common Shares.

Series C Issuance

During the year ended December 31, 2018, the Company raised $19,633,487 in net proceeds in Series C financing through the issuance of 25,905,175 Financing Units. Each Financing Unit consists of one Common Share and one Subordinate Share warrant. As part of the Series C financing, the Company also issued 1,613,130 Financing Units to cancel $1,375,000 of debt, 91,667 of warrants, and $55,200 of accrued but unpaid interest on note payables.

As a part of the Series C financing, the Company incurred $2,761,970 of share issuance costs. As of December 31, 2018, $741,976 of costs have been paid in cash, $140,000 have been paid with the issuance of 158,583 Common Shares, and the remaining $1,879,994 costs remain unpaid at December 31, 2019.

Conversion of DBFN Note

During the year ended December 31, 2018, the Company signed modification agreements with DBFN note holders to extinguish 50% of the principal amount of the note payable through the issuance of 3,085,870 Common Shares. DBI incurred a loss of $1,535,015 on the settlement of this note.

During the year ended December 31, 2019, the Company had the following Share transactions.

The Company issued 781,250 Common Shares to Hillcrest Merchant Partnership, Inc. on March 14, 2019 for advisory services provided relating to the joint venture creation between the Company and Khiron.

On July 27, 2019, the Company issued 283,202 Common Shares under a purchase agreement dated August 17, 2018. These Common Shares were classified as shares to be issued on December 31, 2018.

Stock Options

The Company has an Incentive Stock Option Plan ("the Plan') under which non-transferable options to purchase Common Shares of the Company may be granted to directors, officers, employees or service providers of the Company.

During the year ended December 31, 2019 and 2018, the Company recorded $6,946,603 and $2,362,780, respectively of share based compensation and expense.

During the year ended December 31, 2019, the Company issued 5,000,000 stock options.

- 3,300,000 of the options were issued to employees from January 7, 2019 through June 21, 2019. These options have a vesting schedule of 33% vest one year from the grants date and then in equal portions monthly for the remaining two years. 800,000 of the options were forfeited in 2019 due to employee terminations.
- 1,500,000 of the options were issued for contracted services on January 22, 2019. These options vested on grant date and 550,000 were exercised in 2019.
- 200,000 of the options were issued for contracted services on January 1. 2019. These have a vesting schedule of 33% on one year from the grant date and then in equal portions monthly for the remaining two years.

The value of the stock options issued during 2019 was calculated using the Black-Scholes model and the assumptions at the grant date were as follows:

- Risk-free interest: 1.87 to 2.61% based on the 3 to 10 year US Treasury Bill Rates
- Expected volatility: 74% which is based on the historical stock prices of peer companies
- Expected life: 3 to 10 years
- Forfeiture rate: 20%

The following table summarizes the movements of the Company's stock options for the year ended December 31, 2019:

	During the Period									
Opening Balance	Granted	Exercised	Forfeited	Cancelled	Expired	Closing Balance	Exercise Price and weighted average exercise price $	Remaining contractual life and weighted average contractual life (years)	Vested & Exercisable	Unvested
11,185,220	-	-	-	-	-	11,185,220	0.66	8.73	3,728,407	7,456,813
4,077,045	-	-	-	-	-	4,077,045	0.66	8.73	-	4,077,045
25,000	-	(25,000)	-	-	-	-	0.08	-	-	-
-	500,000	-	-	-	-	500,000	0.50	9.03	-	500,000
-	500,000	-	(500,000)	-	-	-	0.63	9.04	-	-
-	500,000	-	-	-	-	500,000	0.69	9.05	-	500,000
-	300,000	-	(300,000)	-	-	-	0.83	9.12	-	-
-	500,000	-	-	-	-	500,000	0.73	9.21	-	500,000
-	500,000	-	-	-	-	500,000	0.70	9.44	-	500,000
-	500,000	-	-	-	-	500,000	0.73	9.48	-	500,000
-	1,500,000	(550,000)	-	-	-	950,000	0.62	2.06	950,000	-
-	200,000	-	-	-	-	200,000	0.58	9.01	-	200,000
15,287,265	5,000,000	(575,000)	(800,000)	-	-	18,912,265	0.52	6.58	4,678,407	14,233,858

During the year ended December 31, 2018, the Company issued 15,362,265 stock options.

- 11,185,220 of these stock options vest as follows: 33% vest annually on September 20, 2019, 2020 and 2021.
- 4,077,045 stock options vest as follows: 1,359,015 vest on October 31, 2020 and 2,718,030 vest on November 30, 2020.
- 100,000 stock options were exercisable on November 27, 2018.

The value of the stock options issued during 2018 was calculated using the Black-Scholes model and the assumptions at the grant date were as follows:

- Risk-free interest: 3.09% which is based on the Government of Canada 10 year Bond
- Expected volatility: 70% which is based on the historical stock prices of peer companies
- Expected life: 10 years

The following table summarizes the movements of the Company's stock options for the year ended December 31, 2018:

	During the Period									
Opening Balance	Granted	Exercised	Forfeited	Cancelled	Expired	Closing Balance	Exercise Price and weighted average exercise price $	Remaining contractual life and weighted average contractual life (years)	Vested & Exercisable	Unvested
-	11,185,220	-	-	-	-	11,185,220	0.66	9.73	-	11,185,220
-	4,077,045	-	-	-	-	4,077,045	0.66	9.73	-	4,077,045
-	100,000	(75,000)	-	-	-	25,000	0.08	0.51	25,000	-
-	15,362,265	(75,000)	-	-	-	15,287,265	0.66	9.71	25,000	15,262,265

Share Purchase Warrants

Subordinate Share warrants issued with Convertible note

Between November 22, 2016 and April 1, 2018, the Company issued 7,847,722 warrants in connection with convertible notes to debt holders. Each whole warrant entitles the holder to purchase one Common Share of the Company at an exercise price range of $0.09 to $1.42 a share. These warrants have an expiry dates between June 2, 2022 and March 8, 2023. 6,205,505 warrants were exercised, and 965,712 warrants were cancelled during the year ended December 31,2018. During the year ended December 31, 2019 no warrants have been exercised or cancelled.

Subordinate Share warrants issued with Series C

On October 1, 2018, the Company issued 25,746,682 warrants to debt holders in the Series C raise. Each warrant entitles the holder to purchase one SVS of the Company at an exercise price of $1.32 per share. The warrants had an expiry date of October 1, 2019 that was extended on September 21, 2019 to an expiry date of October 1, 2020. The exercise price and all other terms of the Warrants remain unchanged. As of December 31, 2019, none of the warrants have been exercised.

As at December 31,2019, the Company had the following Subordinate Share warrants outstanding:

Expiry date		**Exercise price**	**Warrants exercisable and outstanding**
		$	**#**
October 1, 2020	$	1.32	25,746,682
November 23, 2021	$	1.42	175,587
June 2, 2022	$	1.42	210,700
March 8, 2023	$	0.34	290,218
			26,423,187

The weighted average life of the warrants outstanding is 2.08 years. The following is a summary of the Company's Subordinate Share warrant activities:

Subordinate warrants	**As at December 31, 2018**	**As at December 31, 2019**	**Weighted average exercise price**
	#	#	$
Beginning	2,243,966	26,423,187	0.89
Issued	31,350,438	-	1.11
Cancelled	(965,712)	-	1.42
Exercised	(6,205,505)	-	0.71
Outstanding	26,423,187	26,423,187	1.31

12. 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, Vincent 'Tripp' Keber III, is the sole owner of Left Bank.

The Company purchased 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 $214,462. Total rent expense paid to Left Bank for the year ended December 31, 2019 and 2018 is $214,462 and $192,415, respectively. Left Bank holds inventory on behalf of the Company at the facility for a total amount of $89,004 at December 31, 2019 and $111,253 at December 31, 2018.

As of December 31, 2019, there are no maturing notes receivables due from Left Bank (the "Left Bank loans"). The Company has not identified any significant increases in the credit risk of the Left Bank loans. Therefore, the Company has evaluated the Left Bank loans as a Stage 1 financial asset and have estimated the twelve-month expected credit loss on the loan to be 10%. An expected credit loss provision of $219,807 has been taken on the Left Bank loans as of December 31, 2019.

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 $120,000 and $126,000, respectively, for the years ended December 31, 2019 and 2018. The Company also incurred various other shared expenses with Left Bank for $229,963 and $393,511 for the years ended December 31, 2019 and 2018, respectively.

In addition to the above arrangements between the Company and Left Bank, Left Bank incurred shared expenses with DBI for facility maintenance and research and development services provided by Left Bank employees for $389,239 and $nil, respectively, for the years ended December 31, 2019 and 2018.

Purchases and sales between Left Bank and DBI are recorded in accounts payable or accounts receivable. For the year ended December 31, 2019 the Company earned $6,997,776 of packaging revenue. DBI also incurred $4,042,426 of cost of goods sold reimbursements. During the year ended December 31, 2018, the Company earned $3,242,216 of packaging revenue and $143,470 of raw materials and ingredients resale revenue.

At December 31, 2019 and December 31, 2018, the Company had $3,875,214 and $2,793,198, respectively of accounts receivable from Left Bank.

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% to Silver State Wellness. DBPN had non-interest-bearing advances receivable from Silver State Wellness for $659,387 as at December 31, 2019 and December 31, 2018.

As of December 31, 2019, $1,334,387 in Silver State Wellness notes receivables ($675,000 in principal) and non-interest-bearing advances ($659,387 in principal) (the "SSW loans") have matured but remain unpaid. As a result, the Company assessed the credit risk of the Silver State Wellness loans as having been significantly deteriorated. Therefore, the Company evaluated the SSW loans as a Stage 3 credit impaired financial asset and have estimated the lifetime expected credit loss on the SSW loans to be 100%. An expected credit loss provision of $1,334,387 has been taken on the SSW loans as of December 31, 2019.

DBPN has equity contributions receivable of $228,263 as at December 31, 2019 and December 31, 2018 from Silver State Wellness. At December 31, 2019 and December 31, 2018, the Company had $517,427 and $1,107,741, respectively of accounts receivable from Silver State Wellness including $22,564 of affiliate packaging revenue and $nil of materials and ingredients resale revenue. The Company also incurred $129,103 of cost of goods sold reimbursement due to Silver State Wellness based on the licensing agreement.

DBI has $10,006 worth of accounts receivable from Silver State Wellness as at December 31, 2019 and December 31, 2018.

Rose Capital Fund

Rose Capital Fund owned 25% of Therabis as of December 31, 2018. On January 2, 2019 DBI purchased Rose Capital Fund's 25% share of Therabis (Note 3).

Auxly Cannabis Group Inc

Two former Directors of the Company, Michael Lickver and Hugo Alves, are officers of Auxly. During the year ended December 31, 2018 the Company entered into a licensing agreement with Auxly and received a prepayment of $4,000,000. During the year ended December 31, 2019, $3,250,000 had been returned to Auxly (Note 8).

The Company amended the initial agreement with Auxly to exclude the exclusive rights in Mexico and paid $375,000 for those rights.

Related party advances and notes receivable:

Related party advances and notes receivable consist of the following:

	2019	2018
Left Bank	$ 1,592,048	$ 1,755,886
Silver State Wellness	675,000	675,000
Total Related Party Notes Receivable	2,267,048	2,430,886
Related Party Advances to Left Bank	97,155	97,155
Related Party Advances to Silver State Wellness	656,887	656,887
Less: Present Value Adjustments on Notes Receivable	269,095	429,919
Less: Allowance on Related Party Advances	1,563,911	1,480,565
Total Related Party Advances and Notes Receivable	$ 1,188,084	$ 1,274,444

DBI holds two notes receivable from Left Bank. The first note for $633,333 and the second note is for $958,715. During the prior 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, 2019 and December 31, 2018.

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.

	2019	2018
Management Compensation	$ 624,750	$ 621,365
Stock Incentives	2,256,044	2,362,780
Share-Based Payments	-	1,712,091
	$ 2,880,794	$ 4,696,236

13. NON-CONTROLLING INTEREST

The following table summarizes the net loss attributable to the non-controlling shareholders for the year.

	DBFN	DBPN	Therabis	Total
Net Assets of NCI, January 1, 2018	$ -	$ 126,332	$ (604,701)	$ (478,369)
Net Income Attributable to NCI	(4,596)	(514,067)	(426,630)	(945,293)
Adjustment to NCI due to DBFN Debt Conversion	(313,445)	-	-	(313,445)
Net Assets of NCI, December 31, 2018	(318,041)	(387,735)	(1,031,331)	(1,737,107)
Net Income Attributable to NCI	(1,492)	110,597	(408,032)	(298,927)
Adjustment to NCI due to Acquisition of Therabis Equity	-	-	480,139	480,139
Net Assets of NCI, December 31, 2019	$ (319,533)	$ (277,138)	$ (959,224)	$ (1,555,895)

14. LOSS PER SHARE

The following is a reconciliation for the calculation of basic and diluted loss per share for the years ended December 31, 2019 and 2018. For the periods presented, all options, conversion features and warrants were anti-dilutive.

	2019	2018
Net Loss	$ (20,439,016)	$ (21,238,351)
Weighted-Average Number of Shares and Units Outstanding	125,862,932	58,349,725
Earnings (Loss) Per Share - Basic and Diluted	$ (0.16)	$ (0.36)
Attributable to Dixie Brands Inc	$ (0.16)	$ (0.35)
Attributable to Non-Controlling Interest	$ (0.00)	$ (0.01)

15. REVENUE

Revenue by service line:

	2019	**2018**
Licensing Revenue	$ 9,914,899	$ 4,488,245
Finished Goods	857,555	624,920
Materials and Ingredients	224,868	426,552
Other	99,637	251,734
	$ 11,096,959	$ 5,791,451

16. GENERAL AND ADMINISTRATIVE EXPENSES

For the years ended December 31, 2019 and 2018, general and administrative expenses consisted of the following:

	2019	2018
Stock Incentives / Share-Based Compensation	$ 6,504,018	$ 4,074,871
Estimated Credit Losses	(103,106)	3,708,095
Salaries and Benefits	4,311,237	2,665,705
Professional Fees	3,741,495	1,809,778
Legal	601,900	343,408
Other General and Administrative	571,771	601,825
Travel and Entertainment	479,642	297,008
Rent	294,894	271,433
Insurance	275,595	118,254
Lobbying Expense	69,040	162,648
Office Expense	61,061	534,379
Employee Benefits	59,597	114,611
Amortization of Contract Asset	-	39,222
	$ 16,867,144	$ 14,741,237

17. FINANCIAL INSTRUMENTS AND 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, 2019 is the carrying amount of cash, accounts receivable, and related party advances and notes receivable. The Company has a significant outstanding balance in accounts receivable over 90 days as of December 31, 2019. The Company mitigates its credit risk on its related party advances and 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.

Expected credit losses for accounts receivables are based on the payment profiles of revenues for the last 12 months, before December 31, 2019, as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forward-looking cash flow projections of the customers which is the primary factor used to estimate the collectability of the amounts outstanding.

The following is a breakdown of the exposure to ECLs for trade receivables as of December 31, 2019:

	Trade receivables past due				
	0-30 days	**31-60 Days**	**61-90 Days**	**91+ Days**	**Total**
Expected credit loss rate	10%	16%	21%	51%	
Gross Carrying Amount	918,674	500,401	510,777	3,035,988	4,965,841
Lifetime expected credit loss	87,618	78,651	105,447	1,533,758	1,805,474

The Company has a concentration of credit risk with Left Bank, a related party (Note 12). The Company provided note receivables to Left Bank in the amount of $1,592,048 as at December 31, 2019 and $1,755,886 as at December 31, 2018. The Company also has significant amounts of accounts receivable from Left Bank for $3,875,214 in 2019 and $2,793,198 in 2018. The Company expects to recover these amounts going forward but as there has been a history of slow payments from Left Bank, the Company provides provisions for Left Bank notes receivable for $219,807 and $143,820 as of December 31, 2019 and 2018, respectively, and for Left Bank accounts receivable for $1,383,944 and $1,390,000 as of December 31, 2019 and 2018, respectively.

As of December 31, 2019, there are no maturing notes receivables due other than with Silver State Wellness, as noted in Related Party Transactions. The Company has not identified any significant increases in the credit risk of the advances.

Liquidity risk

The Company's ability to generate cash to fund operations, fund planned growth and development activities is contingent on its ability to increase revenues amongst its various product lines in combination with its ability to raise capital through various funding partners and reduce expenditures. The Company expects to increase revenues in its various CBD product lines through new distribution partners, expanding ecommerce sales and developing new sales channels. The Company also expects to increase licensing revenue from affiliate sales of medicated products by expanding into new states and creating organic growth in current operating states. The Company expects to reduce expenses by effectively managing headcount and focusing effort on ensuring cost effective spending. Any negative cash flows are expected to be managed by funding provided by a funding partner. The inability to increase revenue, obtain funding or reduce expenses according to management's plans could result in liquidity risk.

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 has some exposure to interest rate risk due to its outstanding interest-bearing loans discussed in Note 9. However, the interest rates are fixed and therefore the Company does not have significant interest rate risk. The Company does not use derivative instruments to reduce its exposure to interest rate risk.

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 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 December 31, 2019.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used to make the measurements. The hierarchy is summarized as follows:

- Level 1 quoted prices (unadjusted) that are in active markets for identical assets or liabilities
- Level 2 inputs that are observable for the asset or liability, either directly (prices) for similar assets or liabilities in active markets or indirectly (derived from prices) for identical assets or liabilities in markets with insufficient volume or infrequent transactions
- Level 3 inputs for assets or liabilities that are not based upon observable market data

The Company classifies its financial instruments as follows:

Financial Instrument	**December 31, 2019**	**December 31, 2018**	**Classification**	**Fair Value**
Financial Assets:				
Cash	$ 551,255	$ 18,361,113	Amortized cost	N/A
Accounts Receivable, net	$ 3,160,367	$ 2,266,733	Amortized cost	N/A
Related Party Advances and Notes Receivable, net	$ 1,188,084	$ 1,274,444	Amortized cost	N/A
Financial Liabilities:				
Accounts Payable	$ 2,378,214	$ 1,099,298	Amortized cost	N/A
Accrue Payroll and Other Accrued Liabilities	$ 8,132,574	$ 2,851,125	Amortized cost	N/A
Derivative Liabilities	$ -	$ 238,100	FVTPL	Level 3
Notes Payable, Current Portion	$ 2,600,000	$ 775,000	Amortized cost	N/A

There are no material reclassifications between fair value levels during the years ended December 31, 2019 or the year ended December 31, 2018.

18. INCOME TAXES

The income tax recovery recorded differs from the amount obtained by applying the statutory Canadian rate of 26.5% to the loss before income taxes for the year and is reconciled as follows:

	2019	2018
Loss before income taxes	$ (20,439,016)	$ (21,238,351)
Income tax recovery at statutory rate	(5,416,339)	5,628,160
Tax Effect of the following:		
Effect of jurisdiction rate differences	286,530	180,560
Non-controlling interest differences	75,025	250,500
Permanent non-deductible items	46,663	244,650
Warrant and convertible debt costs	(59,759)	256,990
Listing expense	-	1,774,210
Other	(27,429)	-
Stock Compensation Adjustment	1,705,987	-
Return to provision adjustments and other items	800,536	74,090
Change in unrecognized deferred tax asset	2,588,786	2,847,160
Provision for income taxes	$ -	$ -

	2019	2018
Unrecognized deductible temporary difference for which the company has not recognized a deferred tax asset are presented in the following tables:		
Allowance for doubtful accounts	$ 1,567,689	$ 1,507,318
Accrual and other timing differences	1,368,401	1,443,558
Intangible assets	338,310	302,040
Stock compensation	67,998	4,094,914
Interest in U.S. partnerships	932,260	884,479
Non-capital loss carryforwards - US	25,167,461	11,340,902
Non-capital loss carryforwards - CDN	905,147	435,623
Total deductible temporary differences	30,347,266	20,008,834
Deductible temporary difference not recognized	(30,347,266)	(20,008,834)
Net deductible temporary differences	$ -	$ -

As of December 31, 2019, the Company has the following tax losses availabe to shelter future income:

	Gross Amount
Non-capital Losses (U.S.) - Prior to enactment of the Tax Cuts and Jobs Act	$ 7,635,715
Non-capital Losses (U.S.)	$ 17,531,767
Non-capital Losses (U.S. States)	$ 25,167,461
Non-captial Losses - Canada	$ 905,147

The Company has not recorded a deferred tax asset related to these carry forward losses and temporary differences as it is not probable that future taxable income will be available against which these unused tax attributes can be utilized.

The Company will be treated as a U.S. domestic corporation for U.S. federal income tax purposes and will be liable for both U.S. and Canadian income tax. It is anticipated that the Company will be treated as a U.S. domestic corporation for U.S. federal income tax purposes under Section 7874 of the U.S. Internal Revenue

Code. As a result, it is anticipated that the Company will be subject to U.S. income tax on its worldwide income and that this treatment will continue indefinitely. In addition, 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.

IRC Section 280E

As the Company derives revenue from third parties in the cannabis industry and taking into account the potential impact of ongoing US tax cases that interpret the application of IRC Section 280E, the Company may be subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to the cost of producing the products or cost of production. This results in permanent differences between ordinary and necessary business expenses deemed unallowable under IRC Section 280E. The Company does not believe it is subject to the 280E. However, similar to all ancillary companies in the cannabis sector, there is a general risk that the regulators may consider application of Section 280E.

19. 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 December 31, 2019, 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.

The Company has the following estimated future contractual payment obligations, excluding interest:

	2020	2021	2022	2023	2024	Total
Accounts Payable	$ 2,378,214	$ -	$ -	$ -	$ -	$ 2,378,214
Accrued Payroll and Other Accrued Liabilities	$ 8,132,574	$ -	$ -	$ -	$ -	$ 8,132,574
Notes Payable, Current Portion	$ 2,600,000	$ -	$ -	$ -	$ -	$ 2,600,000
Leases	$ 36,000	$ 175,644	$ 185,085	$ 189,866	$ 194,646	$ 781,241

20. SUBSEQUENT EVENTS

On April 22, 2020 the Company and BR Brands LLC ("BR Brands") have entered into a definitive agreement (the "Definitive Agreement") to complete their previously disclosed business combination (the "Transaction"), pursuant to which the Company will indirectly acquire from BR Brands all of the outstanding voting shares of Mary's Brands ("Mary's"), the creator of such brands as Mary's Medicinals, Mary's Methods, Mary's Nutritionals and Mary's Tails, and certain other assets of BR Brands, including securities of Edgewater Foods, Inc. and Lost County, Inc. The Transaction is expected to close in the third quarter of 2020, subject to satisfaction of all closing conditions, including receipt of required shareholder and regulatory approvals.

Following completion of the Transaction, BR Brands will own and control approximately 80% of the outstanding voting shares of Dixie, with existing Dixie shareholders holding the balance of the outstanding voting shares. The non-participating voting shares of Dixie will be redeemed as part of the Transaction. Subject to the satisfaction of all applicable listing requirements, it is the intention of the parties that the voting shares of Dixie will, following completion of the Transaction, continue to be listed and posted for trading on the Canadian Securities Exchange as a single class.

On April 22, 2020 Dixie granted 14,198,926 restricted subordinate voting shares to certain non-executive employees and 597,222 restricted subordinate voting shares to certain directors (collectively, the "Restricted Shares"), in each case at a price of $0.36 per share, pursuant to the terms of the Company’s 2019 Long-Term Incentive Plan. The Restricted Shares issued to non-executive employees will vest on January 1, 2021 and the remaining Restricted Shares vest immediately upon grant and are otherwise subject to the terms of the Plan.

On March 20, 2020, Dixie confirmed that in light of the Transaction with BR Brands, Dixie and Khiron Life Sciences Corp. have mutually agreed to terminate the joint venture that was announced on January 30, 2019.

In December 2019, a novel strain of coronavirus or COVID -19 was reported and on March 12, 2020 declared a pandemic by the World Health Organization. This has resulted in disrupting supply chains, production and affecting sales across industries. The extent of the outbreak on the Company’s operational and financial performance will depend on developments, including duration and spread of the outbreak, duration of the government imposed and voluntary closures, and the impact on vendors, customers, and affiliates, all of which cannot be predicted. At this time, the extent of the impact of coronavirus on our operations and financial results is uncertain.