

**DIXIE BRANDS INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL  
STATEMENTS FOR THE THREE MONTHS ENDED  
MARCH 31, 2020 AND 2019  
(UNAUDITED)**

(Expressed in United States Dollars)

# DIXIE BRANDS INC. AND SUBSIDIARIES

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## DIXIE BRANDS INC. AND SUBSIDIARIES

Condensed Consolidated Interim Statements of Financial Position  
For the Three Months Ended March 31, 2020 and 2019 (unaudited)

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
<b>ASSETS</b>		
Cash	\$ 389,487	\$ 551,255
Accounts Receivable, net	3,793,319	3,160,367
Deferred Contract Costs	278,095	298,120
Inventories	Note 4 2,045,821	2,368,484
Advances to Affiliates, net	Note 5 701,388	606,019
Prepaid Expenses and Other Receivables	528,262	397,510
<b>Total Current Assets</b>	<b>7,736,372</b>	<b>7,381,755</b>
Related Party Advances and Notes Receivable, net	Note 11 1,244,641	1,188,084
Property and Equipment, net	Note 6 625,655	739,446
Intangible Assets, net	Note 7 355,492	419,449
<b>TOTAL ASSETS</b>	<b>\$ 9,962,160</b>	<b>\$ 9,728,734</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 2,881,839	\$ 2,378,214
Accrued Payroll	323,874	272,556
Other Accrued Liabilities	8,495,380	7,860,018
Prepaid License Fees	Note 8 750,000	750,000
Notes Payable, Current Portion	Note 9 2,750,000	2,600,000
<b>Total Current Liabilities</b>	<b>15,201,093</b>	<b>13,860,788</b>
<b>Total Liabilities</b>	<b>15,201,093</b>	<b>13,860,788</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital	41,561,241	41,561,241
Contributed Surplus	8,372,006	7,313,599
Accumulated Deficit	(53,579,532)	(51,450,999)
Non-Controlling Interest	Note 12 (1,592,648)	(1,555,895)
<b>Total Shareholders' Equity</b>	<b>(5,238,933)</b>	<b>(4,132,054)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 9,962,160</b>	<b>\$ 9,728,734</b>

Nature of Operations and Going Concern (Note 1)

Commitments and Contingencies (Note 17)

Subsequent Events (Note 18)

Approved on behalf of the Board on July 13, 2020

"Charles Smith" (Signed)  
Director

"Jared Lanser" (Signed)  
Interim Chief Financial Officer

**DIXIE BRANDS INC. AND SUBSIDIARIES**  
Condensed Consolidated Interim Statements of Operations  
For the Three Months Ended March 31, 2020 and 2019 (unaudited)

		<b>Three months ended March 31,</b>	
		<b>2020</b>	<b>2019</b>
<b>Revenues</b>	<i>Note 14</i>	\$ 4,094,234	\$ 2,218,175
<b>Cost of Goods Sold</b>		<u>2,350,260</u>	<u>1,157,808</u>
<b>Gross Profit</b>		<u>1,743,974</u>	<u>1,060,367</u>
<b>Expenses:</b>			
General and Administrative	<i>Note 15</i>	2,777,578	6,469,439
Sales and Marketing		552,831	1,213,359
Depreciation	<i>Note 6</i>	<u>43,353</u>	<u>59,729</u>
<b>Total Expenses</b>		<u><b>3,373,762</b></u>	<u><b>7,742,527</b></u>
<b>Loss From Operations</b>		<u><b>(1,629,788)</b></u>	<u><b>(6,682,160)</b></u>
<b>Other Expense:</b>			
Interest Expense		791,318	-
Change in Fair Value of Derivative Liabilities		-	64,500
Other		<u>(255,820)</u>	<u>(72,968)</u>
<b>Total Other Expense</b>		<u><b>535,498</b></u>	<u><b>(8,468)</b></u>
<b>Net Loss and Comprehensive Loss Before Non-Controlling Interest</b>		<b>(2,165,286)</b>	<b>(6,673,692)</b>
<b>Non Controlling Interest</b>	<i>Note 12</i>	<u><b>(36,753)</b></u>	<u><b>(79,356)</b></u>
<b>Net Loss and Comprehensive Loss Atributable to the Company</b>		<u><b>\$ (2,128,533)</b></u>	<u><b>\$ (6,594,336)</b></u>
<b>Earnings (Loss) Per Share - Basic and Diluted</b>	<i>Note 13</i>	<u><b>\$ (0.02)</b></u>	<u><b>\$ (0.05)</b></u>
Attributable to Dixie Brands Inc		\$ (0.02)	\$ (0.05)
Attributable to Non-Controlling Interest		\$ (0.00)	\$ (0.00)
<b>Weighted-Average Shares Outstanding - Basic and Diluted</b>	<i>Note 13</i>	<u><b>126,492,726</b></u>	<u><b>125,036,538</b></u>

## DIXIE BRANDS INC. AND SUBSIDIARIES

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficit)  
For the Three Months Ended March 31, 2020 and 2019 (unaudited)

		Attributable to the shareholders of the Company									
		Share Capital									
		Non- Participating Voting Shares #	Common Shares #	Common Shares \$	Shares to be issued #	Shares to be issued \$	Share Capital	Contributed Surplus	Accumulated Deficit	Non-Controlling Interest	TOTAL SHAREHOLDERS' EQUITY
<b>BALANCE AS OF DECEMBER 31, 2018</b>	<i>Note 10</i>	500,000	124,853,272	\$ 40,226,961	283,202	\$ 250,000	40,476,961	\$ 8,506,705	\$ (31,310,910)	\$ (1,737,107)	\$ 15,935,649
<b>Net Loss</b>		-	-	-	-	-	-	(6,594,336)	(79,356)	(6,673,692)	
Exercise of Stock Options	<i>Note 10</i>	-	25,000	23,614	-	-	23,614	(23,614)	-	-	
Stock Award	<i>Note 10</i>	-	781,250	570,313	-	-	570,313	-	-	570,313	
Stock Option	<i>Note 10</i>	-	-	-	-	-	-	2,434,613	-	2,434,613	
Therabis change in NCI	<i>Note 3</i>	-	-	-	-	-	-	(480,139)	480,139	-	
Purchase of Therabis	<i>Note 3</i>	-	-	-	-	-	-	(7,486,602)	-	(7,486,602)	
<b>BALANCE AS OF MARCH 31, 2019</b>		500,000	125,659,522	40,820,888	283,202	250,000	41,070,888	2,950,963	(37,905,246)	(1,336,324)	4,780,281
<b>Net Loss</b>		-	-	-	-	-	-	(13,545,753)	(219,571)	(13,765,324)	
Exercise of Stock Options		-	550,000	490,353	-	-	490,353	(149,354)	-	340,999	
Stock Option		-	-	-	-	-	-	4,511,990	-	4,511,990	
Shares Issued		-	283,202	250,000	(283,202)	(250,000)	-	-	-	-	
<b>BALANCE AS OF DECEMBER 31, 2019</b>		500,000	126,492,724	41,561,241	-	-	41,561,241	7,313,599	(51,450,999)	(1,555,895)	(4,132,054)
<b>Net Loss</b>		-	-	-	-	-	-	(2,128,533)	(36,753)	(2,165,286)	
Stock Option	<i>Note 10</i>	-	-	-	-	-	-	1,058,407	-	1,058,407	
<b>BALANCE AS OF MARCH 31, 2020</b>		500,000	126,492,724	\$ 41,561,241	-	\$ -	41,561,241	\$ 8,372,006	\$ (53,579,532)	\$ (1,592,648)	\$ (5,238,933)

**DIXIE BRANDS INC. AND SUBSIDIARIES**  
Condensed Consolidated Interim Statements of Cash Flows  
For the Three Months Ended March 31, 2020 and 2019 (unaudited)

	<b>Three months ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>OPERATING ACTIVITIES</b>		
Net Loss	\$ (2,165,286)	\$ (6,673,692)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation and Amortization	<i>Note 6,7</i> 107,310	123,683
Change in Fair Value of Derivative Liabilities	-	64,500
Incentive Share-Based Payment	-	570,312
Stock Incentive Expense for Compensation	<i>Note 10</i> 1,035,241	2,434,613
Stock Incentive Expense for Consulting Fees	<i>Note 10</i> 23,166	-
Change in Credit Loss Reserve on Accounts Receivable,		
Advances and Related Party Advances	<i>Note 16</i> 390,859	-
Loss on Disposal of Property and Equipment	<i>Note 6</i> 70,438	-
Changes in:		
Accounts Receivable	(1,006,819)	140,265
Deferred Contract Costs	20,025	(536,878)
Inventories	322,663	(447,595)
Prepaid Expenses and Other Receivables	(130,752)	(587,638)
Accounts Payable	503,625	532,662
Accrued Payroll	51,318	130,491
Other Accrued Liabilities	635,362	(2,603,310)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(142,850)</b>	<b>(6,852,587)</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of Property and Equipment	<i>Note 6</i> -	(92,921)
Additions to Related Party Advances and Notes Receivable	<i>Note 11</i> (139,421)	109,720
Payments Received on Notes Receivable	<i>Note 11</i> 65,872	(315,064)
Advances to Affiliates	<i>Note 5</i> (95,369)	-
Investment in Subsidiary	-	(4,800,000)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(168,918)</b>	<b>(5,098,265)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from Issuance of Notes Payable	<i>Note 9</i> 250,000	-
Payments on Notes Payable	<i>Note 9</i> (100,000)	(775,000)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>150,000</b>	<b>(775,000)</b>
<b>NET DECREASE IN CASH</b>	<b>(161,768)</b>	<b>(12,725,852)</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>551,255</b>	<b>18,361,113</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 389,487</b>	<b>\$ 5,635,261</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash Paid for Interest	\$ -	\$ 102,173
Cash Paid for Taxes	\$ -	\$ -

## **DIXIE BRANDS INC. AND SUBSIDIARIES**

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2020 and 2019 (unaudited)

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### **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 six 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 stock 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 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 condensed consolidated interim 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 of \$2,165,286 and \$6,673,692 for the three months ended March 31, 2020 and 2019, respectively. Current liabilities exceeded current assets by \$7,464,721 at March 31, 2020 and \$6,479,033 at December 31, 2019. The Company’s accumulated deficit was \$53,579,532 and \$51,450,999 as at March 31, 2020 and December 31, 2019, respectively.

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 LLC (“BR Brands”) on April 22, 2020 (Note 18).

The existence of these material uncertainties may cast significant doubt on the Company’s ability to continue as going concern. These condensed consolidated interim financial statements do not include

**DIXIE BRANDS INC. AND SUBSIDIARIES**  
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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**

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. As such, these interim financial statements do not contain all the disclosures required by IFRS for annual financial statements and should be read in conjunction with the Company's audited annual consolidated financial statements.

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors of the Company on July 13, 2020.

### **Basis of Measurement**

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

These condensed consolidated interim financial statements do not include all of the information required for full financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2019, which have been prepared in accordance with IFRS. The accounting policies applied in these condensed consolidated interim financial statements are consistent with those applied in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2019.

### **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 (United States ("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 condensed consolidated interim financial statements from the functional currency to the presentation currency are recorded in other comprehensive loss in the condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim statements of operations.

## **DIXIE BRANDS INC. AND SUBSIDIARIES**

Notes to Condensed Consolidated Interim Financial Statements  
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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.

The functional currency of Dixie Brands Inc. and all subsidiaries is the 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 condensed consolidated interim 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 condensed consolidated interim financial statements include the accounts of the following entities, DBI, Therabis, Aceso, DBFN, DBPN, DBMI, DBAT, DBOK and USA Inc.

### **Significant Accounting Judgments Estimates and Assumptions**

The preparation of the Company's condensed consolidated interim 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 condensed consolidated interim 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 financial assets carried at amortized cost. The impairment methodology applied

## **DIXIE BRANDS INC. AND SUBSIDIARIES**

### Notes to Condensed Consolidated Interim Financial Statements

For the Three Months Ended March 31, 2020 and 2019 (unaudited)

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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 accounts 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 accounts 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. Financial assets carried at amortized cost 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

**DIXIE BRANDS INC. AND SUBSIDIARIES**  
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condensed consolidated interim statement of operations.

*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.

### **3. SIGNIFICANT TRANSACTIONS**

*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 were \$144,520 for the year ended December 31, 2019. No costs were incurred for the period ending March 31, 2020.

On March 30, 2020, the Company terminated its joint venture with Khiron Life Sciences Corp in light of the contemplated change of control in connection with the Company’s pending transaction with BR Brands.

*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 recorded in other accrued liabilities. The deferred closing payment has not been paid as of March 31, 2020 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 March 31, 2020, with an interest payable balance of \$1,960,824 as of December 31, 2019 and \$2,672,323 as of March 31, 2020, recorded in other accrued liabilities. 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 on January 2, 2019.

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*BR Brands, LLC*

On March 9, 2020, the Company signed an exclusive, binding term sheet to merge with BR Brands LLC, a premier house of brands within the legal cannabis sector (Note 18).

**4. INVENTORIES**

Inventories consist of the following:

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
	<u>                    </u>	<u>                    </u>
Raw Materials:		
Materials	\$ 644,629	\$ 791,470
Ingredients	<u>250,326</u>	<u>250,296</u>
Total Raw Materials	894,955	1,041,766
Finished Goods	1,232,849	1,330,160
Less: Reserve on Inventory	<u>(81,983)</u>	<u>(3,442)</u>
Total Inventories	<u><u>\$ 2,045,821</u></u>	<u><u>\$ 2,368,484</u></u>

**5. ADVANCES TO AFFILIATES**

Advances to Affiliates consist of the following:

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
	<u>                    </u>	<u>                    </u>
Choice Labs, LLC	\$ 202,369	\$ 282,000
Lyrical, LLC	<u>499,019</u>	<u>324,019</u>
Total Advances to Affiliates	<u><u>\$ 701,388</u></u>	<u><u>\$ 606,019</u></u>

**DIXIE BRANDS INC. AND SUBSIDIARIES**  
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For the Three Months Ended March 31, 2020 and 2019 (unaudited)

**6. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at March 31, 2020:

	Furniture and Fixtures	Equipment	Computer Equipment	Leasehold Improvements	Total
<b>Cost:</b>					
<b>December 31, 2019</b>	\$ 174,934	\$ 1,149,040	\$ 47,163	\$ 508,378	\$ 1,879,515
Disposals	-	(90,150)	-	-	(90,150)
<b>March 31, 2020</b>	174,934	1,058,890	47,163	508,378	1,789,365
<b>Accumulated Depreciations:</b>					
<b>December 31, 2019</b>	142,888	441,640	47,163	508,378	1,140,069
Depreciation	2,676	40,677	-	-	43,353
Disposals	-	(19,712)	-	-	(19,712)
<b>March 31, 2020</b>	145,564	462,605	47,163	508,378	1,163,710
<b>Net Book Value:</b>					
<b>December 31, 2019</b>	\$ 32,046	\$ 707,400	\$ -	\$ -	\$ 739,446
<b>March 31, 2020</b>	\$ 29,370	\$ 596,285	\$ -	\$ -	\$ 625,655

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

	Furniture and Fixtures	Equipment	Computer Equipment	Leasehold Improvements	Total
<b>Cost:</b>					
<b>December 31, 2018</b>	\$ 174,934	\$ 850,000	\$ 107,143	\$ 508,378	\$ 1,640,455
Additions	-	174,701	-	-	174,701
Disposals	-	(81,780)	-	-	(81,780)
<b>March 31, 2019</b>	174,934	942,921	107,143	508,378	1,733,376
<b>Accumulated Depreciations:</b>					
<b>December 31, 2018</b>	92,898	312,264	49,694	226,225	681,081
Depreciation	6,248	34,567	6,991	11,922	59,728
<b>March 31, 2019</b>	99,146	346,831	56,685	238,147	740,809
<b>Net Book Value:</b>					
<b>December 31, 2018</b>	\$ 82,036	\$ 537,736	\$ 57,449	\$ 282,153	\$ 959,374
<b>March 31, 2019</b>	\$ 75,788	\$ 596,090	\$ 50,458	\$ 270,231	\$ 992,567

**DIXIE BRANDS INC. AND SUBSIDIARIES**  
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**7. INTANGIBLE ASSETS**

Intangible assets consist of the following at March 31, 2020:

	<u>License Agreement</u>	<u>Total Intangible Assets</u>
<b>Cost:</b>		
<b>December 31, 2019</b>	\$ 1,307,026	\$ 1,307,026
<b>Balance at March 31, 2020</b>	<u>\$ 1,307,026</u>	<u>\$ 1,307,026</u>
<b>Accumulated Amortization:</b>		
<b>December 31, 2019</b>	\$ 887,577	\$ 887,577
Amortization	<u>63,957</u>	<u>63,957</u>
<b>March 31, 2020</b>	<u>\$ 951,534</u>	<u>\$ 951,534</u>
<b>Net Book Value:</b>		
<b>December 31, 2019</b>	\$ 419,449	\$ 419,449
<b>March 31, 2020</b>	\$ 355,492	\$ 355,492

For the three-month period ended March 31, 2020, \$63,957 of amortization was recorded as part of cost of goods sold.

Intangible assets consist of the following at March 31, 2019:

	<u>License Agreement</u>	<u>Total Intangible Assets</u>
<b>Cost:</b>		
<b>December 31, 2018</b>	\$ 1,307,026	\$ 1,307,026
<b>Balance at March 31, 2019</b>	<u>\$ 1,307,026</u>	<u>\$ 1,307,026</u>
<b>Accumulated Amortization:</b>		
<b>December 31, 2018</b>	\$ 631,751	\$ 631,751
Amortization	<u>63,956</u>	<u>63,956</u>
<b>March 31, 2019</b>	<u>\$ 695,707</u>	<u>\$ 695,707</u>
<b>Net Book Value:</b>		
<b>December 31, 2018</b>	\$ 675,275	\$ 675,275
<b>March 31, 2019</b>	\$ 611,319	\$ 611,319

For the three-month period ended March 31, 2019, \$63,956 of amortization was recorded as part of cost of goods sold.

## **DIXIE BRANDS INC. AND SUBSIDIARIES**

Notes to Condensed Consolidated Interim Financial Statements

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### **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.

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**9. NOTES PAYABLE**

Notes payable consist of the following:

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
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.	\$ 500,000	\$ 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	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	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	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.	500,000	500,000
Secured convertible promissory note dated March 30, 2020, with a maturity of September 30, 2020; payment in full is due on the earlier of the maturity date or an Event of Default with interest at a rate of 1.25% per month, to be paid along with principal. The note is personally guaranteed by shares of an officer of the Company.	<u>250,000</u>	<u>-</u>
Total Notes Payable	2,750,000	2,600,000
Less: Current Portion of Notes Payable	<u>2,750,000</u>	<u>2,600,000</u>
Notes Payable, Net of Current Portion	<u>\$ -</u>	<u>\$ -</u>

**10. SHAREHOLDERS' EQUITY**

**Stock Options**

**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

## **DIXIE BRANDS INC. AND SUBSIDIARIES**

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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 shareholders were not entitled to any votes.

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.

As at March 31, 2020, the Company had the following shares issued and outstanding:

- (a) 126,492,724 Common Shares
- (b) 500,000 Non-Participating Voting Shares

### **Share Transactions**

During the period ended March 31, 2020, the Company had no Share transactions.

### **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.

For the three months ending March 31, 2020, the Company recorded \$1,058,407 of share-based compensation and expense.

During the three months ending March 31, 2020, the Company issued 111,111 stock options.

- 111,111 options were issued for contracted services on January 1, 2020 and vested on January 1, 2020.

The value of the stock options issued during in the three months ended March 31, 2020 was calculated using the Black-Scholes model and the assumptions at the grant date were as follows:

- Risk-free interest: 2.47% based on the 3 year US Treasury Bill Rates
- Expected volatility: 74% which is based on the historical stock prices of peer companies
- Expected life: 5 years
- Share Price: \$0.17
- Exercise Price: \$0.45
- Dividends per share: None

## DIXIE BRANDS INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements  
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The following table summarizes the movements of the Company's stock options for the three months ending March 31, 2020:

Opening Balance	During the Period		Closing Balance	Exercise Price and weighted	Remaining contractual life and	Vested & Exercisable	Unvested
	Granted	Forfeited					
11,185,220	-	-	11,185,220	0.66	8.48	3,728,407	7,456,813
4,077,045	-	-	4,077,045	0.66	8.48	-	4,077,045
500,000	-	-	500,000	0.50	8.78	194,444	305,556
500,000	-	-	500,000	0.69	8.80	194,444	305,556
500,000	-	-	500,000	0.73	8.96	180,556	319,444
500,000	-	-	500,000	0.70	9.19	-	500,000
500,000	-	(500,000)	-	0.73	-	-	-
950,000	-	-	950,000	0.62	1.81	950,000	-
200,000	-	-	200,000	0.58	8.76	77,778	122,222
-	111,111	-	111,111	0.45	4.76	111,111	-
18,912,265	111,111	(500,000)	18,523,376	0.66	8.17	5,436,740	13,086,636

For the three months ending March 31, 2019, the Company recorded \$2,434,613 of share-based compensation and expense.

During the three months ending March 31, 2019, the Company issued 4,000,000 stock options.

- 2,300,000 of the options were issued to employees from January 7, 2019 through March 31, 2019. These options have a vesting schedule of 33% vest one year from the grant date and then in equal portions monthly for the remaining two years.
- 1,500,000 of the options were issued for contracted services on January 22, 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 in the three months ended March 31, 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
- Share Price: \$0.50 to \$0.83
- Exercise Price: \$0.50 to \$0.83
- Dividends per share: None

## DIXIE BRANDS INC. AND SUBSIDIARIES

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The following table summarizes the movements of the Company's stock options for the three months ending March 31, 2019:

<u>During the Period</u>			Closing Balance	Exercise Price and weighted average exercise price \$	Remaining contractual life and weighted average contractual life (years)	Vested &	
Opening Balance	Granted	Exercised				Exercisable	Unvested
11,185,220	-	-	11,185,220	0.66	9.48	-	11,185,220
4,077,045	-	-	4,077,045	0.66	9.48	-	4,077,045
25,000	-	(25,000)	-	0.08	-	-	-
-	500,000	-	500,000	0.50	9.78	-	500,000
-	500,000	-	500,000	0.63	9.79	-	500,000
-	500,000	-	500,000	0.69	9.80	-	500,000
-	300,000	-	300,000	0.83	9.88	-	300,000
-	500,000	-	500,000	0.73	9.96	-	500,000
-	1,500,000	-	1,500,000	0.62	2.82	1,500,000	-
-	200,000	-	200,000	0.58	9.76	-	200,000
15,287,265	4,000,000	(25,000)	19,262,265	0.52	7.00	1,500,000	17,762,265

### 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 \$0.34 to \$1.42 a share. These warrants have an expiry dates between October 1, 2020 and March 8, 2023. 6,205,505 warrants were exercised, and 965,712 warrants were cancelled during the year ended December 31, 2018. As of March 31, 2020, no additional of the warrants have been exercised.

#### *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 March 31, 2020, none of the warrants have been exercised.

## DIXIE BRANDS INC. AND SUBSIDIARIES

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As at March 31, 2020, the Company had the following Subordinate Share warrants outstanding:

<b>Expiry date</b>	<b>Exercise price</b>	<b>Warrants exercisable and outstanding</b>
	\$	#
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
		<b>26,423,187</b>

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:

<b>Subordinate warrants</b>	<b>As at December 31, 2019</b>	<b>As at March 31, 2020</b>	<b>Weighted average exercise price</b>
	#	#	\$
Beginning	26,423,187	26,423,187	1.31
Outstanding	26,423,187	26,423,187	1.31

### 11. RELATED PARTY ADVANCES AND NOTES RECEIVABLE

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 former Director of the Company, Vincent 'Tripp' Keber III, is the sole owner of Left Bank.

The Company purchased intellectual properties (Note 7) 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 three months ended March 31, 2020 and 2019 is \$62,865 and \$72,926, respectively. Left Bank holds inventory on behalf of the Company at the facility for a total amount of \$83,539 at March 31, 2020 and \$89,004 at December 31, 2019.

As of March 31, 2020, 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 \$166,560 has been taken on the Left Bank loans as of March 31, 2020.

## DIXIE BRANDS INC. AND SUBSIDIARIES

### Notes to Condensed Consolidated Interim Financial Statements For the Three Months Ended March 31, 2020 and 2019 (unaudited)

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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 \$30,000 and \$30,000, respectively, for the three months ended March 31, 2020 and 2019. The Company also incurred various other shared expenses with Left Bank for \$64,421 and \$76,472 for the three months ended March 31, 2020 and 2019, 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 \$65,871 and \$72,545, respectively, for the three months ended March 31, 2020 and 2019.

Purchases and sales between Left Bank and DBI are recorded in accounts payable or accounts receivable. The three months ended March 31, 2020 the Company earned \$2,339,245 of packaging revenue. DBI also incurred \$1,262,111 of cost of goods sold reimbursements. During the three months ended March 31, 2019, the Company earned \$1,409,030 of packaging revenue.

At March 31, 2020 and December 31, 2019, the Company had \$4,516,346 and \$3,875,214, respectively of accounts receivable from Left Bank. The balance in accounts receivable is the result of the activity from the above transactions.

#### *Silver State Wellness*

Silver State Wellness owns 30% of DBPN. In October 2016, DBPN issued \$675,000 under a note receivable bearing interest at 12% from Silver State Wellness. DBPN had non-interest-bearing advances receivable from Silver State Wellness for \$659,387 as at March 31, 2020 and December 31, 2019.

DBPN has equity contributions receivable of \$228,263 as at March 31, 2020 and December 31, 2019 from Silver State Wellness. At March 31, 2020 and December 31, 2019, the Company had \$547,990 and \$517,427 of accounts receivable from Silver State Wellness, of which \$13,955 and \$22,564 is affiliate packaging revenue and \$7,710 and \$nil is materials and ingredients resale revenue respectively. The Company also incurred \$20,741 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 March 31, 2020 and December 31, 2019.

#### *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*

Two former Directors of the Company, Michael Lickver and Hugo Alves, are officers of Auxly. During the previous year the Company entered into a licensing agreement with Auxly and received a prepayment of \$4,000,000. During the three months ended March 31, 2020, \$3,250,000 had been returned to Auxly (Note 8).

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.

**DIXIE BRANDS INC. AND SUBSIDIARIES**

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*Related party advances and notes receivable:*

Related party advances and notes receivable consist of the following:

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Left Bank	\$ 1,665,597	\$ 1,592,048
Silver State Wellness	<u>675,000</u>	<u>675,000</u>
Total Related Party Notes Receivable	2,340,597	2,267,048
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)	(269,095)
Less: Allowance on Related Party Advances	<u>(1,580,903)</u>	<u>(1,563,911)</u>
Total Related Party Advances and Notes Receivable	<u>\$ 1,244,641</u>	<u>\$ 1,188,084</u>

DBI holds two notes receivable from Left Bank. The first note for \$633,333 and the second note is for \$947,380. 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 March 31, 2020 and December 31, 2019.

*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.

The compensation of the key management of the Company recognized in the consolidated statements of operations for the periods ended March 31, 2020 and 2019 were as follows:

	<b>March 31, 2020</b>	<b>March 31, 2019</b>
Management Compensation	\$ 164,304	\$ 122,077
Stock Incentives	<u>290,432</u>	<u>644,270</u>
	<u>\$ 454,736</u>	<u>\$ 766,347</u>

**DIXIE BRANDS INC. AND SUBSIDIARIES**  
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**12. NON-CONTROLLING INTEREST**

The following table summarizes the net loss and comprehensive loss attributable to the non-controlling shareholders for the period.

	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)
Net Income Attributable to NCI	(6)	2,950	(39,697)	(36,753)
Net Assets of NCI, March 31, 2020	\$ (319,539)	\$ (274,188)	\$ (998,921)	\$ (1,592,648)

**13. LOSS PER SHARE**

The following is a reconciliation for the calculation of basic and diluted earnings (loss) per share for the periods ended March 31, 2020 and 2019.

	Three months ended March 31, 2020	2019
Net Loss	\$ (2,165,286)	\$ (6,673,692)
Weighted-Average Number of Shares and Units Outstanding	126,492,726	125,036,538
Earnings (Loss) Per Share - Basic and Diluted	\$ (0.02)	\$ (0.05)
Attributable to Dixie Brands Inc	\$ (0.02)	\$ (0.05)
Attributable to Non-Controlling Interest	\$ (0.00)	\$ (0.00)

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**14. REVENUE**

The follow is revenue by service line for the three months ended March 31, 2020 and 2019.

	<b>March 31, 2020</b>	<b>March 31, 2019</b>
	<hr/>	<hr/>
Licensing Revenue	\$ 3,990,015	\$ 1,953,263
Finished Goods	51,672	115,938
Materials and Ingredients	36,926	116,810
Other	15,621	32,164
	<hr/>	<hr/>
	<b>\$ 4,094,234</b>	<b>\$ 2,218,175</b>
	<hr/>	<hr/>

**15. GENERAL AND ADMINISTRATIVE EXPENSES**

For the three months ended March 31, 2020 and 2019, general and administrative expenses consisted of the following:

	<b>March 31, 2020</b>	<b>March 31, 2019</b>
	<hr/>	<hr/>
Stock Incentives / Share-Based Compensation	\$ 1,044,000	\$ 2,141,539
Salaries and Benefits	709,983	1,214,243
Estimated Credit Loss	371,932	39,440
Professional Fees	233,392	2,325,724
Legal	104,686	253,652
Other General and Administrative	98,553	148,780
Rent	78,316	72,926
Insurance	73,168	59,355
Travel and Entertainment	54,134	120,696
Employee Benefits	6,191	24,038
Office Expense	3,223	51,046
Lobbying Expense	-	18,000
	<hr/>	<hr/>
	<b>\$ 2,777,578</b>	<b>\$ 6,469,439</b>
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## DIXIE BRANDS INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements  
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### 16. 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 counterparties is a credit risk. The maximum credit exposure as at December 31, 2019 is the carrying amount of cash, accounts receivable, advance to affiliates, and related party advances and notes receivable. The Company has a significant outstanding balance in accounts receivable over 90 days as of March 31, 2020. The Company mitigates its credit risk on the outstanding balance in accounts receivable over 90 days by detailed review of those customers forecasts and cashflow projections. 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 March 31, 2020, 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 estimated credit losses for accounts receivables as of March 31, 2020:

	Trade receivables past due				Total
	0-30 days	31-60 Days	61-90 Days	91+ Days	
Expected credit loss rate	11%	17%	20%	50%	
Gross Carrying Amount	1,627,895	353,259	172,770	3,818,735	5,972,659
Lifetime expected credit loss	177,436	60,318	35,245	1,906,341	2,179,340

The Company has a concentration of credit risk with Left Bank, a related party (Note 11). The Company provided note receivables to Left Bank in the amount of \$1,665,597 as at March 31, 2020 and \$1,592,048 as at December 31, 2019. The Company also has significant amounts of accounts receivable from Left Bank of \$4,516,346 and \$3,875,214 as of March 31, 2020 and December 31, 2019, respectively. 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 \$166,560 and \$219,807 as of March 31, 2020 and December 31, 2019, respectively, and for Left Bank accounts receivable for \$1,787,320 and \$1,383,944 as of March 31, 2020 and December 31, 2019.

## **DIXIE BRANDS INC. AND SUBSIDIARIES**

### Notes to Condensed Consolidated Interim Financial Statements For the Three Months Ended March 31, 2020 and 2019 (unaudited)

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As of March 31, 2020, 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 to affiliates.

The provision for estimated credit risk increased by \$390,859 for the three months ended March 31, 2020.

#### *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 is never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

#### *Banking risk*

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

#### *Interest rate risk*

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Company has some exposure to interest rate risk due to its outstanding interest-bearing notes payable discussed in Note 9 and its notes receivable discussed in Note 11. 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.

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### *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 for the period ending March 31, 2020.

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:

<b>Financial Instrument</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>	<b>Classification</b>	<b>Fair Value</b>
<u>Financial Assets:</u>				
Cash	\$ 389,487	\$ 551,255	Amortized cost	N/A
Accounts Receivable, net	\$ 3,793,319	\$ 3,160,367	Amortized cost	N/A
Advances to Affiliates, net	\$ 701,388	\$ 606,019	Amortized cost	N/A
Related Party Advances and Notes Receivable, net	\$ 1,244,641	\$ 1,188,084	Amortized cost	N/A
<u>Financial Liabilities:</u>				
Accounts Payable	\$ 2,881,839	\$ 2,378,214	Amortized cost	N/A
Other Accrued Liabilities	\$ 8,819,254	\$ 8,132,574	Amortized cost	N/A
Notes Payable, Current Portion	\$ 2,750,000	\$ 2,600,000	Amortized cost	N/A

There are no material reclassifications between fair value levels during the three months ended March 31, 2020 or the year ended December 31, 2019.

## 17. 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.

## DIXIE BRANDS INC. AND SUBSIDIARIES

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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 March 31, 2020, 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 as at March 31, 2020, excluding interest:

	<u>1 year</u>	<u>2-5 Years</u>	<u>Total</u>
Accounts Payable	\$ 2,881,839	\$ -	\$ 2,881,839
Other Accrued Liabilities	8,819,254	-	8,819,254
Notes Payable, Current Portion	2,750,000	-	2,750,000
Total	<u>\$ 14,451,093</u>	<u>\$ -</u>	<u>\$ 14,451,093</u>

### 18. SUBSEQUENT EVENTS

On April 22, 2020 the Company and 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.

**DIXIE BRANDS INC. AND SUBSIDIARIES**

Notes to Condensed Consolidated Interim Financial Statements

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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.