

DIXIE BRANDS INC. AND ITS SUBSIDIARIES

**CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS FOR THE SIX MONTHS ENDED JUNE
30, 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 Six months Ended June 30, 2020 and 2019 (unaudited)

		<u>June 30, 2020</u>	<u>December 31, 2019</u>
ASSETS			
Cash		\$ 93,701	\$ 551,255
Accounts Receivable, net		3,881,456	3,160,367
Deferred Contract Costs		334,721	298,120
Inventories	<i>Note 4</i>	1,776,517	2,368,484
Advances to Affiliates, net	<i>Note 5</i>	100,000	606,019
Prepaid Expenses and Other Receivables		557,228	397,510
Total Current Assets		<u>6,743,623</u>	<u>7,381,755</u>
Related Party Advances and Notes Receivable, net	<i>Note 11</i>	1,320,669	1,188,084
Property and Equipment, net	<i>Note 6</i>	583,950	739,446
Intangible Assets, net	<i>Note 7</i>	291,535	419,449
TOTAL ASSETS		<u>\$ 8,939,777</u>	<u>\$ 9,728,734</u>
LIABILITIES AND SHAREHOLDERS' DEFICIT			
LIABILITIES			
Accounts Payable		\$ 2,726,378	\$ 2,378,214
Accrued Payroll		222,584	272,556
Other Accrued Liabilities		9,351,518	7,860,018
Prepaid License Fees	<i>Note 8</i>	750,000	750,000
Notes Payable, Current Portion	<i>Note 9</i>	2,545,424	2,600,000
Total Current Liabilities		<u>15,595,904</u>	<u>13,860,788</u>
Notes Payable, Long-Term Portion	<i>Note 9</i>	150,103	-
Total Liabilities		<u>15,746,007</u>	<u>13,860,788</u>
SHAREHOLDERS' DEFICIT			
Share Capital		41,561,241	41,561,241
Contributed Surplus		9,807,317	7,313,599
Shares to be Issued		240,251	-
Accumulated Deficit		(56,798,737)	(51,450,999)
Deficit attributable to the Company		(5,189,928)	(2,576,159)
Non-Controlling Interest	<i>Note 12</i>	(1,616,302)	(1,555,895)
Total Share holders' Deficit		<u>(6,806,230)</u>	<u>(4,132,054)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT		<u>\$ 8,939,777</u>	<u>\$ 9,728,734</u>

Nature of Operations and Going Concern (Note 1)
Commitments and Contingencies (Note 17)
Subsequent Events (Note 18)

Approved on behalf of the Board on August 27, 2020

"Charles Smith" (Signed)
Director

"Alex de Gortari" (Signed)
Chief Financial Officer

DIXIE BRANDS INC. AND SUBSIDIARIES
Condensed Consolidated Interim Statements of Operations
For the Six months Ended June 30, 2020 and 2019 (unaudited)

		Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Revenues	<i>Note 14</i>	\$ 3,080,154	\$ 2,995,310	\$ 7,174,388	\$ 5,213,485
Cost of Goods Sold		<u>2,112,408</u>	<u>1,955,246</u>	<u>4,462,668</u>	<u>3,113,054</u>
Gross Profit		<u>967,746</u>	<u>1,040,064</u>	<u>2,711,720</u>	<u>2,100,431</u>
Expenses:					
General and Administrative	<i>Note 15</i>	3,043,687	5,243,124	5,821,265	11,620,685
Sales and Marketing		342,072	2,115,897	894,903	3,421,134
Depreciation	<i>Note 6</i>	<u>41,707</u>	<u>105,334</u>	<u>85,060</u>	<u>165,063</u>
Total Expenses		<u>3,427,466</u>	<u>7,464,355</u>	<u>6,801,228</u>	<u>15,206,882</u>
Loss From Operations		<u>(2,459,720)</u>	<u>(6,424,291)</u>	<u>(4,089,508)</u>	<u>(13,106,451)</u>
Other Expense:					
Interest Expense		888,879	753,277	1,680,197	753,277
Change in Fair Value of Derivative Liabilities		-	(170,900)	-	(106,400)
Other		<u>(105,740)</u>	<u>(87,049)</u>	<u>(361,560)</u>	<u>(160,017)</u>
Total Other Expense		<u>783,139</u>	<u>495,328</u>	<u>1,318,637</u>	<u>486,860</u>
Net Loss and Comprehensive Loss Before Non-Controlling Interest		<u>(3,242,859)</u>	<u>(6,919,619)</u>	<u>(5,408,145)</u>	<u>(13,593,311)</u>
Non Controlling Interest	<i>Note 12</i>	<u>(23,654)</u>	<u>(150,062)</u>	<u>(60,407)</u>	<u>(229,418)</u>
Net Loss and Comprehensive Loss Atributable to the Company		<u>\$ (3,219,205)</u>	<u>\$ (6,769,557)</u>	<u>\$ (5,347,738)</u>	<u>\$ (13,363,893)</u>
Earnings (Loss) Per Share - Basic and Diluted	<i>Note 13</i>	<u>\$ (0.03)</u>	<u>\$ (0.06)</u>	<u>\$ (0.04)</u>	<u>\$ (0.11)</u>
Attributable to the Company		\$ (0.03)	\$ (0.06)	\$ (0.04)	\$ (0.11)
Attributable to Non-Controlling Interest		\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted-Average Shares Outstanding - Basic and Diluted	<i>Note 13</i>	<u>126,492,725</u>	<u>125,685,214</u>	<u>126,492,725</u>	<u>125,375,442</u>

DIXIE BRANDS INC. AND SUBSIDIARIES

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficit)

For the Six months Ended June 30, 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 \$	Contributed Surplus	Accumulated Deficit	Controlling Interest	SHAREHOLDERS' DEFICIT
BALANCE AS OF DECEMBER 31, 2018	<i>Note 10</i>	500,000	124,853,273	\$ 40,226,961	283,202	\$ 250,000	\$ 8,506,705	\$ (31,310,910)	\$ (1,737,107)	\$ 15,935,649
Net Loss								(13,363,893)	(229,418)	(13,593,311)
Exercise of Stock Options	<i>Note 10</i>	-	175,000	157,347	-	-	(64,347)	-	-	93,000
Stock Award	<i>Note 10</i>	-	781,250	570,313	-	-	-	-	-	570,313
Stock Option	<i>Note 10</i>	-	-	-	-	-	4,835,591	-	-	4,835,591
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)
BALANCE AS OF JUNE 30, 2019		500,000	125,809,523	40,954,621	283,202	250,000	5,311,208	(44,674,803)	(1,486,386)	354,640
Net Loss								(6,776,196)	(69,509)	(6,845,705)
Exercise of Stock Options		-	400,000	356,620	-	-	(108,621)	-	-	247,999
Stock Award		-	-	-	-	-	-	-	-	-
Stock Option		-	-	-	-	-	2,111,012	-	-	2,111,012
Shares Issued		-	283,202	250,000	(283,202)	(250,000)	-	-	-	-
BALANCE AS OF DECEMBER 31, 2019		500,000	126,492,725	41,561,241	-	-	7,313,599	(51,450,999)	(1,555,895)	(4,132,054)
Net Loss								(5,347,738)	(60,407)	(5,408,145)
Stock Option	<i>Note 10</i>	-	-	-	-	-	2,008,659	-	-	2,008,659
Stock Incentives	<i>Note 10</i>	-	-	-	-	-	485,059	-	-	485,059
Stock Incentives to be Issued	<i>Note 10</i>	-	-	-	1,750,592	240,251	-	-	-	240,251
BALANCE AS OF JUNE 30, 2020		500,000	126,492,725	\$ 41,561,241	1,750,592	\$ 240,251	\$ 9,807,317	\$ (56,798,737)	\$ (1,616,302)	\$ (6,806,230)

DIXIE BRANDS INC. AND SUBSIDIARIES
Condensed Consolidated Interim Statements of Cash Flows
For the Six months Ended June 30, 2020 and 2019 (unaudited)

	Six months ended June 30,	
	2020	2019
OPERATING ACTIVITIES		
Net Loss	\$ (5,408,145)	\$ (13,593,311)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation and Amortization	<i>Note 6,7</i> 212,974	292,976
Change in Fair Value of Note Payable	<i>Note 9</i> (44,673)	
Change in Fair Value of Derivative Liabilities	-	(106,400)
Incentive Share-Based Payment	-	570,313
Stock Incentive Expense for Compensation	<i>Note 10</i> 2,385,392	4,835,591
Stock Incentive Expense for Consulting Fees	348,577	-
Change in Credit Loss Reserve on Accounts Receivable,		
Advances and Related Party Advances	<i>Note 16</i> 402,194	-
(Gain) Loss on Disposal of Property and Equipment	<i>Note 6</i> (14,553)	81,780
Changes in:		
Accounts Receivable	(1,164,776)	(96,817)
Deferred Contract Costs	(36,601)	(608,465)
Inventories	591,967	(780,574)
Prepaid Expenses and Other Receivables	(159,718)	(582,437)
Accounts Payable	348,164	2,220,808
Accrued Payroll	(49,972)	35,389
Other Accrued Liabilities	1,491,500	(2,187,321)
NET CASH USED IN OPERATING ACTIVITIES	(1,097,670)	(9,918,468)
INVESTING ACTIVITIES		
Purchases of Property and Equipment	<i>Note 6</i> -	(221,660)
Sale of Property and Equipment	84,989	-
Additions to Related Party Advances and Notes Receivable	<i>Note 11</i> (290,667)	(782,682)
Payments Received on Notes Receivable	<i>Note 11</i> 199,575	323,779
Advances to Affiliates	<i>Note 5</i> 506,019	-
Investment in Affiliate	-	(4,800,000)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	499,916	(5,480,563)
FINANCING ACTIVITIES		
Proceeds from Issuance of Notes Payable	<i>Note 9</i> 565,200	-
Payments on Notes Payable	<i>Note 9</i> (425,000)	(775,000)
Proceeds from Exercised Stock Options	-	93,000
NET CASH FROM FINANCING ACTIVITIES	140,200	(682,000)
NET DECREASE IN CASH	(457,554)	(16,081,031)
CASH, BEGINNING OF PERIOD	551,255	18,361,113
CASH, END OF PERIOD	\$ 93,701	\$ 2,280,082
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid for Interest	\$ -	\$ 102,173

DIXIE BRANDS INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

For the Six months Ended June 30, 2020 and 2019 (unaudited)

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.

The Company temporarily halted trading of its shares on the Canadian Securities Exchange on March 6, 2020, as the Company announced the execution of a binding term sheet in connection with a business combination with BR Brands, LLC. As of June 30, 2020 the Company's shares are still not trading.

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 \$5,408,145 and \$13,593,311 for the six months ended June 30, 2020 and 2019, respectively. Current liabilities exceeded current assets by \$8,852,281 at June 30, 2020 and \$6,479,033 at December 31, 2019. The Company’s accumulated deficit was \$56,798,737 and \$51,450,999 at June 30, 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

DIXIE BRANDS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Interim Financial Statements
For the Six months Ended June 30, 2020 and 2019 (unaudited)

have a definitive agreement signed with BR Brands LLC (“BR Brands”) on April 22, 2020 (Note 3).

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 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 August 27, 2020.

Basis of Measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis.

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

DIXIE BRANDS INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

For the Six months Ended June 30, 2020 and 2019 (unaudited)

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. 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.

DIXIE BRANDS INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

For the Six months Ended June 30, 2020 and 2019 (unaudited)

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 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

DIXIE BRANDS INC. AND SUBSIDIARIES

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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 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.

COVID Impact

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.

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 was to manufacture and distribute products in the Latin American market. There were no significant transactions or operations in the joint venture. Both parties were 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 June 30, 2020.

DIXIE BRANDS INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

For the Six months Ended June 30, 2020 and 2019 (unaudited)

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 June 30, 2020 and began to accrue compounding interest at 3% per month from January 2, 2019 through May 1, 2019 and at 4.167% per month from May 2, 2019 through June 30, 2020, with an interest payable balance of \$1,960,824 as of December 31, 2019 and \$3,476,525 as of June 30, 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.

BR Brands, LLC

On April 22, 2020 the Company and BR Brands LLC ("BR Brands") have entered into a definitive agreement (the "Definitive Agreement") to complete their 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 Transaction will be considered a reverse takeover of Dixie by BR Brands. For accounting purposes, BR Brands is considered the acquirer and Dixie the acquiree.

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.

DIXIE BRANDS INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

For the Six months Ended June 30, 2020 and 2019 (unaudited)

4. INVENTORIES

Inventories consist of the following:

	June 30, 2020	December 31, 2019
Raw Materials:		
Materials	\$ 528,787	\$ 791,470
Ingredients	208,682	250,296
Total Raw Materials	737,469	1,041,766
Finished Goods	1,087,951	1,330,160
Less: Reserve on Inventory	(48,903)	(3,442)
Total Inventories	\$ 1,776,517	\$ 2,368,484

5. ADVANCES TO AFFILIATES

Advances to Affiliates consist of the following:

	June 30, 2020	December 31, 2019
Choice Labs, LLC	\$ -	\$ 282,000
Lyrical, LLC	100,000	324,019
Total Advances to Affiliates	\$ 100,000	\$ 606,019

DIXIE BRANDS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Interim Financial Statements
For the Six months Ended June 30, 2020 and 2019 (unaudited)

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2020:

	<u>Furniture and Fixtures</u>	<u>Equipment</u>	<u>Computer Equipment</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Cost:					
December 31, 2019	\$ 174,934	\$ 1,149,040	\$ 47,163	\$ 508,378	\$ 1,879,515
Disposals	-	(90,150)	-	-	(90,150)
June 30, 2020	<u>174,934</u>	<u>1,058,890</u>	<u>47,163</u>	<u>508,378</u>	<u>1,789,365</u>
Accumulated Depreciations:					
December 31, 2019	142,888	441,640	47,163	508,378	1,140,069
Depreciation	5,352	79,708	-	-	85,060
Disposals	-	(19,714)	-	-	(19,714)
June 30, 2020	<u>148,240</u>	<u>501,634</u>	<u>47,163</u>	<u>508,378</u>	<u>1,205,415</u>
Net Book Value:					
December 31, 2019	\$ 32,046	\$ 707,400	\$ -	\$ -	\$ 739,446
June 30, 2020	\$ 26,694	\$ 557,256	\$ -	\$ -	\$ 583,950

Property and equipment consist of the following at June 30, 2019:

	<u>Furniture and Fixtures</u>	<u>Equipment</u>	<u>Computer Equipment</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Cost:					
December 31, 2018	\$ 174,934	\$ 850,000	\$ 107,143	\$ 508,378	\$ 1,640,455
Additions	-	210,960	10,700	-	221,660
Disposals	-	(81,781)	-	-	(81,781)
June 30, 2019	<u>174,934</u>	<u>979,179</u>	<u>117,843</u>	<u>508,378</u>	<u>1,780,334</u>
Accumulated Depreciations:					
December 31, 2018	92,898	312,264	49,694	226,225	681,081
Depreciation	16,577	75,462	13,982	59,042	165,063
June 30, 2019	<u>109,475</u>	<u>387,726</u>	<u>63,676</u>	<u>285,267</u>	<u>846,144</u>
Net Book Value:					
December 31, 2018	\$ 82,036	\$ 537,736	\$ 57,449	\$ 282,153	\$ 959,374
June 30, 2019	\$ 65,459	\$ 591,453	\$ 54,167	\$ 223,111	\$ 934,191

DIXIE BRANDS INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

For the Six months Ended June 30, 2020 and 2019 (unaudited)

7. INTANGIBLE ASSETS

Intangible assets consist of the following at June 30, 2020:

	<u>License Agreement</u>	<u>Total Intangible Assets</u>
Cost:		
December 31, 2019	\$ 1,307,026	\$ 1,307,026
Balance at June 30, 2020	<u>\$ 1,307,026</u>	<u>\$ 1,307,026</u>
Accumulated Amortization:		
December 31, 2019	\$ 887,577	\$ 887,577
Amortization	<u>127,914</u>	<u>127,914</u>
June 30, 2020	<u>\$ 1,015,491</u>	<u>\$ 1,015,491</u>
Net Book Value:		
December 31, 2019	\$ 419,449	\$ 419,449
June 30, 2020	\$ 291,535	\$ 291,535

For the three-month and six-month period ended June 30, 2020, \$63,957 and \$127,914, respectively, of amortization was recorded as part of cost of goods sold.

Intangible assets consist of the following at June 30, 2019:

	<u>License Agreement</u>	<u>Total Intangible Assets</u>
Cost:		
December 31, 2018	\$ 1,307,026	\$ 1,307,026
Balance at June 30, 2019	<u>\$ 1,307,026</u>	<u>\$ 1,307,026</u>
Accumulated Amortization:		
December 31, 2018	\$ 631,751	\$ 631,751
Amortization	<u>127,913</u>	<u>127,913</u>
June 30, 2019	<u>\$ 759,664</u>	<u>\$ 759,664</u>
Net Book Value:		
December 31, 2018	\$ 675,275	\$ 675,275
June 30, 2019	\$ 547,362	\$ 547,362

For the three-month and six-month period ended June 30, 2019, \$63,956 and \$127,913, respectively, of amortization was recorded as part of cost of goods sold.

DIXIE BRANDS INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

For the Six months Ended June 30, 2020 and 2019 (unaudited)

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.

DIXIE BRANDS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Interim Financial Statements
For the Six months Ended June 30, 2020 and 2019 (unaudited)

9. NOTES PAYABLE

Notes payable consist of the following:

	<u>June 30, 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.	\$ 175,000	\$ 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.	250,000	-
Unsecured promissory note dated April 29, 2020, with a maturity of April 29, 2022; monthly payments of principal and interest beginning November 2020; interest at rate of 1% per annum. (1)	<u>270,527</u>	<u>-</u>
Total Notes Payable	2,695,527	2,600,000
Less: Current Portion of Notes Payable	<u>2,545,424</u>	<u>2,600,000</u>
Notes Payable, Net of Current Portion	<u>\$ 150,103</u>	<u>\$ -</u>

(1) In response to the COVID-19 pandemic, the Company received from the US government an unsecured forgivable loan for \$315,200 at an interest rate of 1% per annum, repayable in 24 months. The indebtedness may be forgiven subject to the terms of the Paycheck Protection Program. The loan is forgivable if all employees are kept on payroll for eight weeks and the money is used for payroll, rent or utilities. As at June 30, 2020 the Company incurred \$128,397 of the qualifying expenditures. The Company is not expecting to meet the forgiveness qualification of 75% of the note to be used for payroll expenses.

Under IFRS 9, the loan must initially be measured at the fair value at inception. The Company has recorded the fair value of \$263,878 as at April 29, 2020, the initial recognition date of the note using the effective interest rate of 14.98%. The difference between the fair value at inception and the principal value will be recognized as accretion over the term to maturity. The accretion of \$44,673 has been recorded for the period ended June 30, 2020.

DIXIE BRANDS INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

For the Six months Ended June 30, 2020 and 2019 (unaudited)

10. SHAREHOLDERS' DEFICIT

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 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 June 30, 2020, the Company had the following shares issued and outstanding:

- (a) 126,492,725 Common Shares
- (b) 1,750,592 Common Shares To Be Issued
- (c) 500,000 Non-Participating Voting Shares

Share Transactions

During the period ended June 30, 2020, the Company awarded 1,750,592 Common Shares that are To Be Issued

- 1,041,666 shares awarded and vested on April 23, 2020 for Board of Directors services
- 138,889 shares awarded and vested on April 23, 2020 for investment relations consulting
- 138,889 shares awarded and vested on April 23, 2020 for marketing consulting
- 321,148 shares awarded and vested on April 23, 2020 for accounts payable balance settlements
- 110,000 shares awarded and vested on April 23, 2020 for severance payments to two former employees

These shares were valued at \$.137 per Common Shares. Management estimated the value based on the valuation model from the Transaction with updated revenue projections.

During the period ended June 30, 2020, the Company award 13,150,000 incentive shares

- 10,750,000 incentive shares were issued to employees on April 23, 2020 and vest on January 1, 2021
- 2,400,000 incentive shares were issued to consultants on April 23, 2020 and vest on January 1, 2021

DIXIE BRANDS INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

For the Six months Ended June 30, 2020 and 2019 (unaudited)

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 six months ending June 30, 2020, the Company recorded \$2,493,718 of share-based compensation and expense.

During the six months ending June 30, 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 fair market value of the options are .07 per option based on the Black-Scholes model.

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

The following table summarizes the movements of the Company’s stock options for the six months ending June 30, 2020:

Opening Balance	During the Period		Closing Balance	Exercise Price and weighted average exercise price \$	Remaining contractual life and weighted average contractual life (years)	Vested & Exercisable	Unvested
	Granted	Exercised					
11,185,220	-	-	11,185,220	0.66	8.23	3,728,407	7,456,813
4,077,045	-	-	4,077,045	0.66	8.23	-	4,077,045
500,000	-	-	500,000	0.50	8.53	236,111	263,889
500,000	-	-	500,000	0.69	8.55	236,111	263,889
500,000	-	-	500,000	0.73	8.71	222,222	277,778
500,000	-	-	500,000	0.70	8.94	166,667	333,333
500,000	-	-	-	0.73	-	-	-
950,000	-	-	950,000	0.62	1.56	950,000	-
200,000	-	-	200,000	0.58	8.51	94,444	105,556
-	111,111	-	111,111	0.45	4.51	111,111	-
18,912,265	111,111	-	18,523,376	0.66	7.92	5,745,073	12,778,304

During the six months ending June 30, 2019, the Company issued 4,000,000 stock options.

- 2,300,000 of the options were issued to employees from January 7, 2019 through June 30, 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.

DIXIE BRANDS INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

For the Six months Ended June 30, 2020 and 2019 (unaudited)

- 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 six months ended June 30, 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

The following table summarizes the movements of the Company's stock options for the six months ending June 30, 2019:

Opening Balance	During the Period		Closing Balance	Exercise Price and weighted average exercise price \$	Remaining contractual life and weighted average contractual life (years)	Vested &	
	Granted	Exercised				Exercisable	Unvested
11,185,220	-	-	11,185,220	0.66	9.23	-	11,185,220
4,077,045	-	-	4,077,045	0.66	9.23	-	4,077,045
25,000	-	(25,000)	-	0.08	-	-	-
-	500,000	-	500,000	0.50	9.53	-	500,000
-	500,000	-	500,000	0.63	9.54	-	500,000
-	500,000	-	500,000	0.69	9.55	-	500,000
-	300,000	-	300,000	0.83	9.63	-	300,000
-	500,000	-	500,000	0.73	9.71	-	500,000
-	1,500,000	-	1,500,000	0.62	2.57	1,500,000	-
-	200,000	-	200,000	0.58	9.52	-	200,000
15,287,265	4,000,000	(25,000)	19,262,265	0.52	6.81	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 June 30, 2020, no additional warrants have been exercised.

DIXIE BRANDS INC. AND SUBSIDIARIES

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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 June 30, 2020, none of the warrants have been exercised.

As at June 30, 2020, the Company had the following Subordinate Share warrants outstanding:

<u>Expiry date</u>	<u>Exercise price</u>	<u>Warrants exercisable and outstanding</u>
	\$	#
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:

<u>Subordinate warrants</u>	<u>December 31, 2019</u>	<u>June 30, 2020</u>	<u>Weighted average exercise price</u>
	#	#	\$
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.

DBI 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 six months ended June 30, 2020 and 2019 is \$125,730 and \$116,253, respectively. Left Bank holds inventory on behalf of the Company at

DIXIE BRANDS INC. AND SUBSIDIARIES

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For the Six months Ended June 30, 2020 and 2019 (unaudited)

the facility for a total amount of \$76,879 at June 30, 2020 and \$89,004 at December 31, 2019.

As of June 30, 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 \$178,029 has been taken on the Left Bank loans as of June 30, 2020.

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 \$60,000 and \$60,000, respectively, for the six months ended June 30, 2020 and 2019. The Company also incurred various other shared expenses with Left Bank for \$138,966 and \$131,094 for the six months ended June 30, 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 \$118,593 and \$175,254, respectively, for the six months ended June 30, 2020 and 2019.

Purchases and sales between Left Bank and DBI are recorded in accounts payable or accounts receivable. The six months ended June 30, 2020 and 2019 the Company earned \$3,649,018 and \$3,238,100 of packaging revenue. DBI also incurred \$2,334,074 and \$2,018,171 for the six months ended June 30, 2020 and 2019, respectively, of cost of goods sold reimbursements

At June 30, 2020 and December 31, 2019, the Company had \$4,168,828 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 June 30, 2020 and December 31, 2019.

DBPN has equity contributions receivable of \$228,263 as at June 30, 2020 and December 31, 2019 from Silver State Wellness. At June 30, 2020 and December 31, 2019, the Company had \$581,147 and \$517,427 of accounts receivable from Silver State Wellness, of which \$23,151 and \$22,564 is affiliate packaging revenue. The Company also incurred \$30,126 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 June 30, 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).

DIXIE BRANDS INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

For the Six months Ended June 30, 2020 and 2019 (unaudited)

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 six months ended June 30, 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.

Related party advances and notes receivable:

Related party advances and notes receivable consist of the following:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Left Bank	\$ 1,683,140	\$ 1,592,048
Silver State Wellness	<u>675,000</u>	<u>675,000</u>
Total Related Party Notes Receivable	2,358,140	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>(1,522,418)</u>	<u>(1,563,911)</u>
Total Related Party Advances and Notes Receivable	<u>\$ 1,320,669</u>	<u>\$ 1,188,084</u>

DBI holds two notes receivable from Left Bank. The first note is 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 June 30, 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.

DIXIE BRANDS INC. AND SUBSIDIARIES

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The compensation of the key management of the Company recognized in the consolidated statements of operations for the periods ended June 30, 2020 and 2019 were as follows:

	June 30, 2020	June 30, 2019
Management Compensation	\$ 344,712	\$ 261,500
Stock Incentives	290,432	1,271,955
	\$ 635,144	\$ 1,533,455

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	(10)	4,022	(64,419)	(60,407)
Net Assets of NCI, June 30, 2020	\$ (319,543)	\$ (273,116)	\$ (1,023,643)	\$ (1,616,302)

13. LOSS PER SHARE

The following is a reconciliation for the calculation of basic and diluted loss per share for the periods ended June 30, 2020 and 2019.

	Six months ended June 30, 2020	2019
Net Loss	\$ (5,408,145)	\$ (13,593,311)
Weighted-Average Number of Shares and Units Outstanding	126,492,725	125,375,442
Loss Per Share - Basic and Diluted	\$ (0.04)	\$ (0.11)
Attributable to the Company	\$ (0.04)	\$ (0.11)
Attributable to Non-Controlling Interest	\$ (0.00)	\$ (0.00)

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14. REVENUE

The following is revenue by service line for the six months ended June 30, 2020 and 2019.

	June 30, 2020	June 30, 2019
Licensing Revenue	\$ 6,941,062	\$ 4,473,142
Finished Goods	148,610	423,963
Materials and Ingredients	55,840	298,930
Other	28,876	17,450
	<u>\$ 7,174,388</u>	<u>\$ 5,213,485</u>

15. GENERAL AND ADMINISTRATIVE EXPENSES

For the six months ended June 30, 2020 and 2019, general and administrative expenses consisted of the following:

	June 30, 2020	June 30, 2019
Stock Incentives / Share-Based Compensation	\$ 2,493,718	\$ 4,397,198
Salaries and Benefits	1,375,299	2,336,786
Professional Fees	795,398	3,356,780
Estimated Credit Loss	392,244	88,273
Legal	214,758	464,116
Rent	149,355	146,427
Insurance	147,533	119,835
Other General and Administrative	182,920	374,754
Travel and Entertainment	70,040	303,476
Lobbying Expense	-	33,040
	<u>\$ 5,821,265</u>	<u>\$ 11,620,685</u>

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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 June 30, 2020 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 June 30, 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 June 30, 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 June 30, 2020:

	Trade receivables past due				Total
	0-30 days	31-60 Days	61-90 Days	91+ Days	
Expected credit loss rate	9%	15%	22%	50%	
Gross Carrying Amount	1,513,649	235,219	411,665	3,970,085	6,130,618
Lifetime expected credit loss	133,728	34,982	89,334	1,991,118	2,249,162

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 \$1,683,140 as at June 30, 2020 and \$1,592,048 as at December 31, 2019. The Company also has significant amounts of accounts receivable from Left Bank of \$4,168,828 and \$3,875,214 as of June 30, 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 \$178,029 and \$219,807 as of June 30, 2020 and December 31, 2019, respectively, and for Left Bank accounts receivable for \$1,816,526 and \$1,383,944 as of June 30, 2020 and December 31, 2019.

As of June 30, 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

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risk of the advances to affiliates.

The provision for estimated credit risk increased by \$443,687 for the six months ended June 30, 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.

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

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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 June 30, 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:

Financial Instrument	June 30, 2020	December 31, 2019	Classification	Fair Value
<u>Financial Assets:</u>				
Cash	\$ 93,701	\$ 551,255	Amortized cost	N/A
Accounts Receivable, net	\$ 3,881,456	\$ 3,160,367	Amortized cost	N/A
Advances to Affiliates, net	\$ 100,000	\$ 606,019	Amortized cost	N/A
Related Party Advances and Notes Receivable, net	\$ 1,320,669	\$ 1,188,084	Amortized cost	N/A
<u>Financial Liabilities:</u>				
Accounts Payable	\$ 2,726,378	\$ 2,378,214	Amortized cost	N/A
Other Accrued Liabilities	\$ 9,574,102	\$ 8,132,574	Amortized cost	N/A
Notes Payable, Current Portion	\$ 2,545,424	\$ 2,600,000	Amortized cost	N/A
Notes Payable, Long-Term Portion	\$ 150,103	\$ -	Amortized cost	N/A

There are no material reclassifications between fair value levels during the six months ended June 30, 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.

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 June 30, 2020, medical and adult

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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 June 30, 2020, excluding interest:

	<u>1 year</u>		<u>2-5 Years</u>		<u>Total</u>
Accounts Payable	\$ 2,726,378	\$	-	\$	2,726,378
Other Accrued Liabilities	9,574,102		-		9,574,102
Notes Payable, Current Portion	2,545,424		-		2,545,424
	<hr/>				
Total	\$ 14,845,904	\$	-	\$	14,845,904

18. SUBSEQUENT EVENTS

The Company issued 750,000 employee stock incentives under “the plan” on July 22, 2020 to key management position. The incentive shares vest over 3 years.