Dixie Brands Inc.

Management Discussion and Analysis
For the six months ended June 30, 2020

This Management Discussion and Analysis ("MD&A") of Dixie Brands Inc. (the "Company" "DBI" "Dixie Brands", or "Dixie") provides analysis of the Company's financial condition and results for the six months ended June 30, 2020. The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). The following information should be read in conjunction with the accompanying condensed consolidated interim financial statements and the notes thereto. This MD&A was prepared using information that is current as of August 27, 2020, unless otherwise stated.

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

The information provided in this MD&A may contain "forward-looking information" and "forward-looking statements" within the meaning of applicable securities laws. All statements, other than statements of historical fact, made by the Company (or its predecessors) that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded by, followed by or that include words such as "may", "will", "would", "could", "should", "believes", "estimates", "projects", "potential", "expects", "plans", "intends", "anticipates", "targeted", "continues", "forecasts", "designed", "goal", or the negative of those words or other similar or comparable words. Forward-looking statements may relate to future financial conditions, results of operations, plans, objectives, performance or business developments including, without limitation, United States and foreign jurisdictions, and the development and launch of new products. These statements speak only as at the date they are made and are based on information currently available and on current expectations and assumptions concerning future events, which are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties related to: (i) the regulation of the medical and recreational marijuana industry in the United States, Canada, Mexico, Australia, New Zealand, Latin America and other countries in which the Company may carry on its business; (ii) the ability of the Company to obtain meaningful consumer acceptance and a successful market for its products on a national and international basis at competitive prices; (iii) the ability of the Company to develop and maintain an effective sales network; (iv) the success of the Company in forecasting demand for its products or services; (v) the ability of the Company to maintain pricing and thereby maintain adequate profit margins; (vi) the ability of the Company to achieve adequate intellectual property protection; (vii) the availability of financing opportunities, risks associated with economic conditions, dependence on management and conflicts of interest; and (viii) other risks described from time to time in documents filed by the Company with securities regulatory authorities, including the Company's listing statement dated November 23, 2018.

The forward-looking statements contained herein are based on certain key expectations and assumptions, including that: (i) there will be no material adverse competitive or technological change in condition of the Company's business; (ii) there will be a demand for the Company's products that the Company has accurately forecast; and (iii) there will be no material adverse change in the Company's operations, business or in any governmental regulation affecting the Company or its suppliers.

With respect to the forward-looking statements contained herein, although the Company believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements as no assurance can be given that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks, including the risks described above. Consequently, all forward-looking statements made in this MD&A are qualified by such cautionary statements and there can be no assurance that the anticipated results or developments will actually be realized or, even if realized, that they will have the expected consequences to or effects on the Company. The cautionary statements contained or referred to herein should be considered in connection with any subsequent written or oral forward-looking statements that the Company and/or persons acting on the Company's behalf may issue.

The MD&A was prepared and approved by management of the Company on August 27, 2020.

Overview of the Company

Based in Denver, Colorado, Dixie Brands is one of the cannabis industry's leading consumer packaged goods ("CPG") companies, crafting award-winning Tetrahydrocannabinol ("THC") and Cannabidiol ("CBD") infused products since its inception in 2010. Starting with its flagship Elixir, the portfolio has grown through unparalleled production heritage and an industry-leading research and development ("R&D") capability to encompass five distinct brands, 15 product lines and over 100 individual products ("SKU's") representing some of the industry's finest edibles, beverages, tinctures, topicals and concentrates as well as world-class CBD-infused wellness products and pet dietary supplements.

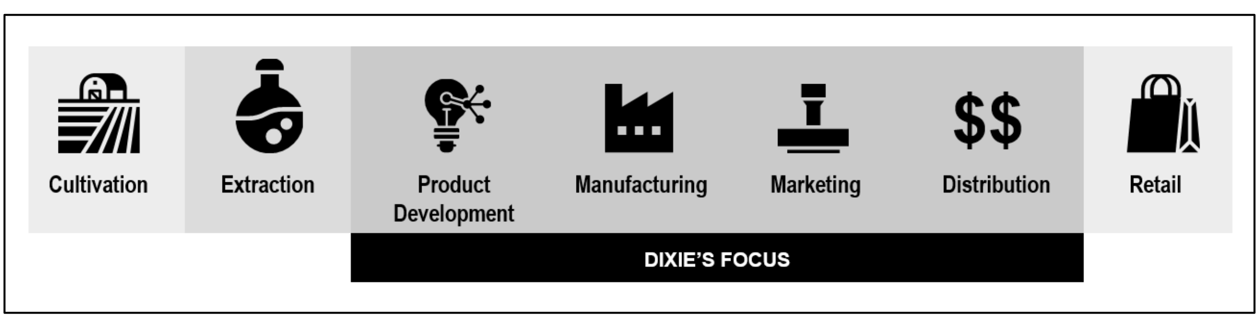
Dixie Brands has established a leadership position in the industry via:

- A proven track record over nearly 10 years in business
- A portfolio of brands that people recognize and trust
- Industry-leading R&D capability, intellectual property ("IP") and related formulations
- Unparalleled heritage and expertise in food-grade manufacturing
- Deep packaging and compliance experience and expertise
- Demonstrated ability to rapidly commercialize new markets and products

Overview of Operations

A Clear and Focused Business Model

Dixie Brands is a true multi-state operator ("MSO"), CPG company focused on high-return segments of the value chain:



Full vertical integration poses a number of challenges, costs and limitations to a world-class CPG company building a portfolio of 'famous brands' where flexibility in raw materials and the ability to maximize retail distribution are fundamental to sustainable success. Dixie optimizes profitable revenue potential by sourcing its raw materials, and by driving availability of its products through all applicable licensed retailers.

With that clearly defined focus, Dixie Brands has established an industry leading position on product development, food-grade manufacturing, quality control, packaging design and commercialization (sales and marketing) of one of the industry's broadest portfolios of consistently high-quality cannabis-infused products.

A True House of Brands

As one of the industry's only true House of Brands (a portfolio of distinct, differentiated brands created for specific consumer audiences and distribution channels), Dixie has built a purposeful consumer-driven portfolio spanning the full cannabis spectrum from 'Fun' to 'Functional' across three distinct business units:

Dixie Brands – THC and CBD infused edibles, topicals and concentrates currently available in 6 regulated markets only. Brands include:

- Dixie - Built for Experience Explorers, Dixie encapsulates contemporary cannabis culture providing high quality, consistent, flavorful and indulgent edible products for those looking to discover more from everyday moments.
- Synergy – Purposefully crafted, clean, green and predictably functional infused products for health and wellness worshippers looking to live life to the fullest. Synergy celebrates the entourage effect, thoughtfully combining THC and CBD with other hero ingredients to provide a wholistic experience.
- Mindset – A pointedly effect-based brand in development. Crafted for performance pragmatists who have the fire within, looking to elevate their performance and, chasing their summits, be they athletic, creative or intellectual.

AcesoHemp – Broad spectrum hemp-derived human supplements distributed via direct to consumer ("DTC"), eCommerce and broad market distributor and retail channels.

- A brand created to capture the restorative nature of plants, AcesoHemp combines all natural 'Herb to Hemp' ingredients including terpenes, L-theanine, turmeric, glucosamine and B-vitamins to provide a portfolio of products targeting specific outcomes such as anxiety, pain and inflammation.

Therabis – Broad spectrum hemp-derived pet supplements distributed via DTC, eCommerce, broad market pet retail and Veterinary-only channels.

- Originally founded by Dixie with veterinarian Dr Steven Katz, Therabis is a broad-spectrum hemp brand providing natural, efficacious alternative remedies for cats and dogs, offering indication-specific relief via Calming, Mobility and Stop the Itch formulas.

Operating Across Multiple Markets

The Dixie Brands regulated portfolio currently operates through licensed manufacturers in six US states (Colorado, California, Nevada, Maryland, Michigan and Oklahoma). Dixie Brands products are currently sold in more than 1,100 dispensaries across existing markets (with approximately 90% penetration in Colorado, Nevada, Maryland and Michigan).

The AcesoHemp and Therabis hemp-derived product portfolios are currently available nationwide via owned DTC channels and indirectly through third-party distributors and key online plus brick-and-mortar retailers, and on a combined basis are currently available in more than 3,000 retail locations.

Business Strategy

Revenue model

Dixie generates revenue from the regulated industry based on specific contracts with licensed manufacturers for the grant of the right to use the intellectual property rights of Dixie. Revenue from Therabis and Aceso are derived from multiple sales channels including DTC, eCommerce, distributors, wholesalers and broad market retail channels.

Since being publicly listed on the Canadian Stock Exchange on November 29th, 2018, Dixie Brands has aggressively pursued its stated goal of becoming the number one CPG company in the cannabis industry via demonstrated progress against five key strategic imperatives:

1) Optimize Global Reach

Establish a truly global portfolio of consumer brands via purposeful and controlled expansion into new markets organically, via strategic partnerships and/or focused M&A. In 2020, Dixie Brands:

- Opened Oklahoma, commencing commercial operations by end of January 2020

2) Control Quality by Managing Production

Build manufacturing operations in each market for the regulated portfolio via local licensing agreements or joint ventures with locally licensed partners. Utilize deep experience and robust IP library to establish and accelerate production efficiently and effectively. In 2020, Dixie Brands:

- Increased available SKU’s in Michigan, to 21 SKU’s
- Launched four additional SKU’s into Maryland
- Launched eight additional SKU’s into California
- Launched five additional SKU’s into Colorado

3) Be Masters of Our Own Destiny

Maximize control over route to market with dedicated sales and marketing efforts in each geography, deploying proven commercial strategic framework via localized team:

- Dominate at retail (brick and mortar and online)
- Build meaningful relationships with budtenders and/or retail staff (non-regulated)
- Engage target audiences directly and digitally
- Amplify via fueling word of mouth

To date, Dixie Brands has:

- Built a strong executive team with deep CPG experience and a demonstrated track record of building brands
- Finalized portfolio architecture, brand definition and consumer profiling underpinning house of brands
- Grown the Secret Society of Budtenders (SSBT) community to 3,500 members and built a unique, customized digital experience for deployment in 2020.
- Substantially increased quality & quantity of consumer connection, outreach and engagement via

material growth across all social channels and direct marketing database.

4) Satisfy Consumer needs via Innovation

Deploy innovation as a weapon via unparalleled R&D capability, utilizing consumer, competitor, and category insight to drive new product development and localized consumer feedback to drive ongoing existing product review, refinement and renovation. In 2019, Dixie Brands:

- Launched Dixie Bursts into Colorado, driving 23% market share within first 90 days
- Announced breakthrough in water solubility via proprietary emulsification technique and ingredient management with new brand FUSE
- Launched AcesoHemp CBD-infused dissolvable tablets and range of topical creams
- Launched an industry-first in Therabis' CBD-infused feline soft chew targeting a specific indication (stress)

5) Leverage Leadership Position for Growth

Utilize strength of brands and demonstrated commercial performance to rapidly drive revenue growth organically (increased distribution, accelerated new product launches, enhanced retail presence and recommendation) via focused M&A and strategic partnerships. In 2019, Dixie Brands:

- Finalized definitive agreement with Herbal Enterprises LLC, an affiliate of the AriZona™ brand, bringing two iconic, trusted and innovative brands together for the production, distribution and sales of THC-infused products. The entry of such an iconic CPG brand has been widely recognized as a watershed moment for the cannabis industry, validating Dixie Brands' unparalleled experience and market strategy.

Selected Financial Information

The following is selected financial data derived from the consolidated financial statements of the Company for the three months and six months ending June 30, 2020 and 2019.

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

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Revenues				
Licensing	$ 2,951,048	$ 2,519,879	$ 6,941,062	$ 4,473,142
Finished Goods	96,938	262,563	148,610	378,501
Materials and Ingredients	18,914	182,120	55,840	298,930
Other	13,254	30,748	28,876	62,912
Total Revenue	3,080,154	2,995,310	7,174,388	5,213,485
Cost of Goods Sold	2,112,408	1,955,246	4,462,668	3,113,054
Gross Profit	967,746	1,040,064	2,711,720	2,100,431
General and Administrative	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 and Amortization	41,707	105,334	85,060	165,063
Total Operating Expenses	3,427,466	7,464,355	6,801,228	15,206,882
Loss From Operations	(2,459,720)	(6,424,291)	(4,089,508)	(13,106,451)
Total Other (Income) Expense	783,139	495,328	1,318,637	486,860
Net Loss and Comprehensive Loss Before Non-Controlling Interest	(3,242,859)	(6,919,619)	(5,408,145)	(13,593,311)
Non Controlling Interest	(23,654)	(150,062)	(60,407)	(229,418)
Net Loss Attributable to Company	**$ (3,219,205)**	**$ (6,769,557)**	**$ (5,347,738)**	**$ (13,363,893)**
Earnings (Loss) Per Share - Basic and Diluted	**$ (0.03)**	**$ (0.06)**	**$ (0.04)**	**$ (0.11)**
Attributable to Dixie Brands Inc	$ (0.03)	$ (0.06)	$ (0.04)	$ (0.11)
Attributable to Non-Controlling Interest	$ -	$ -	$ -	$ -
Weighted-Average Shares Outstanding - Basic and Diluted	**126,492,725**	**125,685,214**	**126,492,725**	**125,375,442**

	June 30, 2020	December 31, 2019
Current Assets	$ 6,743,623	$ 7,381,755
Total Assets	$ 8,939,777	$ 9,728,734
Current Liabilities	$ 15,595,904	$ 13,860,788
Total Liabilities	$ 15,746,007	$ 13,860,788
Current Liab exceeding Current Assets	*$ 8,852,281*	*$ 6,479,033*

Discussion of Operations

Total Revenue

Revenue for the three months ending June 30, 2020 was $3,080,154, an increase of $84,844 (3%) from the second quarter of the prior year. Revenue for the six months ended June 30, 2020 was $7,174,388, an increase of $1,960,903 (34%) from the first two quarters of the prior year.

The increase in total revenue was driven by the expansive growth the company has seen in the Michigan market in 2020. Due to the Company's early entrance into the Michigan medical market in 2019, the Company has been able to maintain a dominate market position when it legalized the recreational market in December 2019. Sales growth is also attributable to both existing products and the launch of new products, as well as higher penetration into dispensaries.

Revenue also continues to be assisted by our sustained presence in Colorado, an established market and our renewed focus on California, a market Dixie re-entered in October 2018. In January of 2020 the Company opened a new market in Oklahoma that provided additional revenue in 2020 compared to 2019.

Revenue is classified as licensing revenue, finished goods, materials and ingredients and other. Licensing revenue is the main driver of the change in revenue recognized in Q2 of 2020 compared to Q2 of 2019. Finished goods revenue relates to the sale of the products of the Company's CBD Subsidiaries, AcesoHemp and Therabis.

Licensing Revenue

Licensing revenue is derived from affiliate sales of Dixie branded products in their related state and governed by the individual contract between the Company and the affiliate.

Licensing revenue for the three months ending June 30, 2020 was 2,951,048, an increase of $431,169 (17%) from the second quarter of the prior year. Licensing revenue for the six months ended June 30, 2020 was $6,941,062, an increase of $2,467,920 (55%) from the prior year.

Licensing revenue related to each location is detailed out below.

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Colorado	$ 1,113,796	$ 1,829,070	$ 3,453,041	$ 3,238,100
Michigan	922,692	-	1,650,603	-
California	649,488	461,667	1,326,477	741,618
Maryland	131,066	94,167	247,547	194,454
Nevada	37,541	134,975	120,502	298,970
Oklahoma	96,465	-	142,892	-
	$ 2,951,048	$ 2,519,879	$ 6,941,062	$ 4,473,142

Colorado

Colorado license revenue for the three months ended June 30, 2020 was $1,113,796, a decrease of $715,274 (-39%) from the second quarter of the prior year. Revenue for the six months ended June 30, 2020 was $3,453,041 an increase of $214,941 (7%) from the six months ended June 30, 2019.

The Company saw the negative effects of the world-wide COVID-19 pandemic in April and May of 2020. Specifically, in April 2020, the Colorado affiliate saw their lowest overall sales month in over two years. This was the result of the market adapting to processes to safely service the demand of the market. Sales continued to be slow through the majority of May. In June 2020, the market started to recover as consumers started to become acclimated to the new safety practices.

The increase in the six months ended June 30, 2020 compared to 2019 was due to higher sales by the Colorado affiliate on Dixie- branded products. The increase can be related to the organic growth of the Company's existing product lines and the introduction of the Dixie Burst sku in the second quarter of 2019. The 7% growth rate during the six months ended June 30, 2020 compared to 2019 was encouraging as we factor the negative effect that COVID-19 had on the early part of Q2.

<u>Michigan</u>

Michigan license revenue for the three months ended June 30, 2020 was $922,692, an increase of $922,692 (100%) from the second quarter of the prior year. Revenue for the six months ended June 30, 2020 was $1,650,603, also an increase of 100% from the six months ended June 30, 2019.

Michigan is a new market as of March 2019, with licensing revenue starting in Q3 2019.

<u>California</u>

California license revenue for the three months ended June 30, 2020 was $649,488, an increase of $187,821 (41%) from the second quarter of the prior year. Revenue for the six months ended June 30, 2020 was $1,326,477 an increase of $584,859 (79%) from the six months ended June 30, 2019.

The increase in the three- and six-months ending June 30, 2020 as compared to 2019 was due to several factors. Our affiliate saw increases in total sales of Dixie branded gummies and Dixie branded chocolates by 104% and 110%, respectively. Dixie branded products also saw increased penetration into additional dispensaries of 37% in 2020 compared to 2019.

<u>Maryland</u>

Maryland license revenue for the three months ended June 30, 2020 was $131,066, an increase of $36,899 (39%) from the second quarter of the prior year. Revenue for the six months ended June 30, 2020 was $247,547 an increase of $53,094 (27%) from the six months ended June 30, 2019.

The increase in the three- and six-months ending June 30, 2020 as compared to 2019 was due to increased sales from our Maryland affiliate of Dixie branded mints and Dixie branded elixirs of 68% and 72%, respectively. Dixie branded products also saw increased penetration into additional dispensaries of 30% in 2020 compared to 2019.

<u>Nevada</u>

Nevada license revenue for the three months ended June 30, 2020 was $37,541, a decrease of $97,434 (-72%) from the second quarter of the prior year. Revenue for the six months ended June 30, 2020 was $120,502 a decrease of $178,468 (-60%) from the six months ended June 30, 2019.

The decrease in the three- and six-months ending June 30, 2020 as compared to 2019 was due to the Nevada affiliate and the Company not being in alignment on resource allocation and market strategy approach. The Company is in discussion with the affiliate and is reviewing its options.

Oklahoma

Oklahoma license revenue for the three months ended June 30, 2020 was $96,465, an increase of 100% from the second quarter of the prior year. Revenue for the six months ended June 30, 2020 was $142,892, also an increase of 100% from the six months ended June 30, 2019.

Oklahoma is a new market as of January 2020. In Q2 2020, Dixie branded product is in 275 dispensaries statewide.

Finished Goods Revenue

Finished goods revenue relates to the sale of the products of the Company's CBD Subsidiaries, AcesoHemp and Therabis.

Finished goods revenue for the three months ended June 30, 2020 was $96,938, a decrease of $165,625 (-63%) from the prior year. Finished goods revenue for the six months ended June 30, 2020 was $148,610, a decrease of $229,891 (-61%) from the second quarter of the prior year.

Finished goods revenue related to each subsidiary is detailed out below.

	Three months ended June 30,		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
AcesoHemp	$ 23,585	$ 60,013	$ 12,369	$ 69,760
Therabis	73,353	202,550	136,241	308,741
	$ 96,938	$ 262,563	$ 148,610	$ 378,501

The decrease in AcesoHemp and Therabis sales were the result of reduced resource and capital allocation. The Company is reorganizing the CBD product division to focus on high quality distribution partnerships and targeted direct to consumer sales in order to stand-out in the highly competitive category.

Gross Profit

For the three months ended June 30, 2020 and 2019, gross profit was $967,746 and $1,040,064, respectively, a decrease of $72,318. For the six months ended June 30, 2020 and 2019, gross profit was $2,711,720 and $2,100,431, respectively, an increase of $611,289. As a percentage of revenue, the gross margin for the three months ended June 30, 2020 and 2019 was 31% and 35%, respectively. The gross margin for the six months ended June 30, 2020 and 2019 was 38% and 40%, respectively.

The increase in gross margin dollars for the six months ended June 30, 2020 was due to Michigan and Oklahoma generating revenue in Q1 and Q2 2020 compared to Q1 and Q2 2019 when the markets were not selling product. The decrease in gross margin percentage is due to the production fee charged by the Colorado affiliate in 2020 reducing the gross profit recognized on the Colorado licensing revenue.

Total Operating Expenses

For the three months ended June 30, 2020 and 2019, total operating expenses were $3,427,466 and $7,464,355, respectively, a decrease of $4,036,889. For the six months ended June 30, 2020 and 2019, total operating expenses were $6,801,228 and $15,206,882, respectively, a decrease of $8,405,654.

General and administrative ("G&A") expense for the three months ended June 30, 2020 and 2019 was $3,043,687 and $5,243,124, respectively, a decrease of $2,199,437. G&A expense for the six months ended June 30, 2020 and 2019 was $5,821,265 and 11,620,685, respectively, a decrease of $5,799,420.

The decrease in G&A expenses was driven by the following items for the six months ended June 30, 2020:

- Stock Option Incentives and Share-Based Compensation were $2,493,718 in 2020 and $4,397,198 in 2019. This was a non-cash expense that was the result of the issuance of stock options to key management.

- Salaries and benefits were $1,375,299 in 2020 and $2,336,786 in 2019. Included in the 2020 expenses is $15,098 of non-cash expenses relating to the issuance of stock. In 2019 the Company focused on growing revenue in all channels and business lines by hiring and promoting key positions, including six positions at the Vice President level or higher. In September 2019, the Company reduced the headcount as a cost-cutting measure.

- Professional fees were $795,398 in 2020 and $3,356,780 in 2019. Included in the 2019 professional fees were stock and stock options expense on contracts, fees related to the 2018 year-end audit, third party accounting consultants, market makers fees, research and development wages, public relations firms and operations consultants. Non-cash expenses included in the professional fees for the six month period ended June 30, 2020 and 2019 were $104,799 and $977,641, respectively.

- Estimated credit losses were $392,244 in 2020 and $88,273 in 2019. The increase was due to managements evaluation of outstanding accountant receivable and notes receivable balances based on collection rates during 2019. This is a non-cash expense.

- Legal expenses were $214,758 in 2020 and $464,116 in 2019. In 2019, the Company had increased legal expenditures related to expansion into new markets and navigating the legal complexities in each state. In 2020, the Company focused on organic growth in current states.

- Rent expenses were $149,355 in 2020 and $146,427 in 2019. There were no additional leased facilities between the two periods.

- Insurance expense was $147,533 in 2020 and $119,835 in 2019. In 2020, insurance increased due to the increased cost of the D&O insurance premium.

- Travel and entertainment expenses were $70,040 in 2020 and $303,476 in 2019. The 2019 expenses included travel costs associated with entering new markets. In 2020, travel decreased due to a decrease in headcount, the focus on organic growth of current states, and the decision by Company management to limit travel due to the COVID-19 pandemic.

- All other general and administrative expenses were $182,920 in 2020 and $407,794 in 2019. The majority of the decrease in all other general and administrative expenses in 2020 compared to 2019 was a result of cost-cutting measures put in place while the company explored additional funding operatives and potential transactions.

Sales and marketing expense for the three months ended June 30, 2020 and 2019 was $342,072 and $2,115,897, respectively, a decrease of $1,773,825. Sales and marketing expense for the six months ended June 30, 2020 and 2019 was $894,903 and $3,421,134 in 2019, a decrease of $2,526,231.

Sales and marketing expenses were higher in 2019 as the Company invested heavily to drive sales in all channels. In Q1 and Q2 2020, the Company was able to reduce broad based marketing spend while focusing on targeted marketing, while increasing sales revenue compared to 2019.

- Sales and marketing salaries and benefits were $710,147 for the six months ending June 30, 2020 and $808,382 in 2019. As previously mentioned, in September of 2019, the Company reduced the headcount as a cost-cutting measure.

- Consumer and trade marketing spend for the six months ending June 30, 2020 was $184,756 compared to $2,612,752 in 2019. Included in the 2020 expenses is $19,061 of non-cash expenses relating to the issuance of stock. There were significant marketing spends in 2019 to develop the California market, refine brand strategy, complete marketing studies, enhance the various company websites, participate in tradeshows and events and increase ad spend to drive Ecommerce sales, all of which were reduced in 2020 as the company was able to leverage those early investments to reduce costs while increasing sales.

Other Expenses

Other expenses for the three months ended June 30, 2020 and 2019 were $783,189 and $495,328, respectively, an increase of $287,821. Other expenses for the six months ended June 30, 2020 was $1,318,637 compared to $486,860 in 2019, an increase of $831,777.

The Company had interest expense for the three months ended June 30, 2020 and 2019 of $888,879 and $0, respectively. Interest expense for the six months ended June 30, 2020 and 2019 were $1,680,197 and $753,277, respectively. The increase in interest expense in 2020 relates to the deferred purchase price from the acquisition of additional equity in Therabis as well as interest on proceeds from loans executed in the second half of 2019.

Non-Cash Expenses

Non-cash expenses were $1,636,288 for the three months ending June 30, 2020 and $3,384,458 for the three months ending June 30, 2019. Non-cash expenses for the six months ending June 30, 2020 and 2019 were $3,109,980 and $5,659,240, respectively. These non-cash expenses were related to depreciation and amortization, estimated credit loss and the issuance of stock and stock options to key management and third-party consultants.

Current Assets

Current assets decreased by $638,132 from December 31, 2019 to June 30, 2020. The decrease can be attributed to the receipt of the majority of an advance to affiliate that was provided to assist in the establishment of the Michigan market. In addition, inventory decreased as the Company looked to lower their days of inventory on hand.

Current Liabilities

Current liabilities increased by $1,754,781 from December 31, 2019 to June 30, 2020. The majority of the net increase is due to the interest payable on the Therabis acquisition and additional accounts payable of $449,458.

Historical Data

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Revenues	$ 2,435,398	$ 1,600,923	$ 2,218,175	$ 2,995,310	$ 3,121,211	$ 2,762,263	$ 4,094,234	$ 3,080,154
Loss From Operations	(539,521)	(10,278,876)	(6,682,160)	(6,424,291)	(4,300,985)	(1,272,904)	(1,629,788)	(2,459,720)
Net Loss and Comprehensive Loss Before Non-Controlling Interest	(2,486,477)	(16,358,168)	(6,673,692)	(6,919,619)	(5,022,165)	(1,823,540)	(2,165,287)	(3,242,859)
Non Controlling Interest	(81,592)	(775,989)	(79,356)	(150,062)	(106,358)	36,849	(36,753)	(23,654)
Net Loss Atrributable to Company	$ (2,404,885)	$ (15,582,179)	$ (6,594,336)	$ (6,769,557)	$ (4,915,807)	$ (1,860,389)	$ (2,128,534)	$ (3,219,205)
Earnings (Loss) Per Share - Basic and Diluted	$ (0.05)	$ (0.28)	$ (0.05)	$ (0.05)	$ (0.04)	$ (0.01)	$ (0.02)	$ (0.03)
Attributable to Dixie Brands Inc	$ (0.05)	$ (0.27)	$ (0.05)	$ (0.05)	$ (0.04)	$ (0.01)	$ (0.02)	$ (0.03)
Attributable to Non-Controlling Interest	$ -	$ (0.01)	$ -	$ -	$ -	$ -	$ -	$ -
Weighted-Average Shares Outstanding - Basic and Diluted	46,687,223 **	58,349,725	125,038,597	125,685,214	126,196,426	125,862,932	126,492,726	126,492,725

*Due to reclassifications of revenue at year-end, certain quarters will have immaterial differences to previously released financial information. Revenue for the entire year is correctly stated.

**Note that all shares outstanding have been converted to the port-RTO amounts, each share converted to 10.535.

Revenue by Quarter

The general factors that cause quarterly variations in revenue are organic growth, new product introductions, expansion into new states, and the general seasonality of the business where as the Company experiences higher growth during the summer months and certain holidays in Q2 and Q3. As previously stated, Q2 2020 revenue was negatively affected by the COVID-19 pandemic.

Net Loss Before Non-Controlling Interest by Quarter

The general factors that cause quarterly variations in the net loss before non-controlling interest are available funding to drive revenue growth through increased investing in sales and marketing efforts and general and administrative spends. Some of the other factors include the cost of going public in Q4 2018 and supporting the higher cost structure.

Adjusted for Non-Cash Expense Net Loss Before Non-Controlling Interest by Quarter

As previously discussed, the Company has significant non-cash expenses, specifically expenses relating to the issuance of shares of stock and stock options. Below details the last six quarters of adjusted Net Gain (Loss) before Non-Controlling interest. In 2020 the company has a Net Gain when you remove the significant non-cash expenses. In Q2 2020 the company saw an adjusted net loss. This loss however comes during the uncertainty of the worldwide COVID-19 pandemic where the company incurred a decrease in sales of $1,014,080 from Q1 2020 to Q2 2020. Despite the decrease in sales due to the pandemic, the Company was able to navigate the second quarter of 2020 without additional reductions in workforce or other unplanned cost reductions. With strong June sales the Company believes strongly that they are back on the path to profitability.

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Net Loss and Comprehensive Loss Before Non-Controlling Interest	$ (6,673,692)	$ (6,919,619)	$ (5,022,165)	$ (1,823,540)	$ (2,165,287)	$ (3,242,859)
Non-Cash Expenditures						
Depreciation and Amortization	59,729	105,334	303,086	45,829	43,353	41,707
Bad Debts (Recovery)	39,440	48,833	(298,284)	106,905	371,932	20,312
Stock Incentive Expense	3,004,926	2,400,977	2,214,348	(103,336)	1,058,407	1,574,269
	(3,569,597)	(4,364,475)	(2,803,015)	(1,774,142)	(691,595)	(1,606,571)
Interest Expense Converting to Equity at Date of Proposed Transaction	-	752,535	437,575	770,754	711,499	804,201
Adjusted Net Loss and Comprehensive Loss Before Non-Controlling Interest	$ (3,569,597)	$ (3,611,940)	$ (2,365,440)	$ (1,003,388)	$ 19,904	$ (802,370)

Significant Events

Corporate Developments

January 23rd, 2020 – Dixie Brands reconstitutes its Board of Directors with the departure of long standing members, Vincent Keber and Devin Binford, and the appointment of Dan Phaure, the Chief Operating Officer of Heritage Cannabis with 20 years of corporate experience, providing strategic guidance in relation to M&A activity, capital transactions and operational changes with companies in North America, Europe and Asia.

Other Significant News

January 31st, 2020 – Dixie Brands commences commercial operations via its licensed manufacturer, in the dynamic Oklahoma market with the launch of its award-winning Gummy and Elixir product lines.

March 9th, 2020 – BR Brands and Dixie agree to combine, bringing together two highly recognized portfolios including the iconic Mary's and Dixie brands, creating a market-leading CPG platform. Under the terms of the deal, BR Brands will combine operations with Dixie by assuming the publicly traded platform via a reverse takeover. This transaction, expected to be completed by the third quarter of this year, will create one of the cannabis industry's most comprehensive established house of brands.

March 20th, 2020 – Dixie Brands confirmed that in consideration of the proposed merger with BR Brands, Dixie and Khiron Life Sciences Corp. mutually agreed to terminate the joint venture that was announced on January 30, 2019.

April 22nd, 2020 – BR Brands and Dixie announce execution of Definitive Agreement to complete their previously disclosed business combination. 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. 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. The combination will strengthen the balance sheet of the combined entity and is expected to drive upside synergies as well as operational efficiencies, providing long-term, stable growth for shareholders and a best-in-class product portfolio for consumers across the globe.

April 22nd, 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.

June 15th, 2020 – Dixie Brands announced 2019 full year results with the Path to Profitability strategy delivering 92% year-over-year revenue growth to $11,096,959 compared to $5,791,451 in 2019. The impact of that strategy was demonstrated even more overtly when comparing a Q1 2019 net loss of approximately $6.6M to the Q4 net loss of approximately $1.9M without any loss of sales efficiency or momentum. '2019 was a watershed year for Dixie Brands, demonstrating incredible resilience and agility on the path to building a sustainable platform for long-term stable growth for shareholders' said Chuck Smith, President and CEO, Dixie Brands.

Outlook

Dixie Brands made significant investments through the first three quarters of 2019 in order to establish the critical foundation for long term growth based on clearly defined priorities including establishing a strong leadership team and driving geographic expansion. Industry headwinds increased through the year due to changing capital requirements prioritizing increased attention to profitability and positive cash flow over rapid expansion, in Q3 2019 the Company shifted focus to ensure the platform would become self-sustaining by Q4 2020. The introduction of the 'Road to Profitability' strategy and the accompanying revised approach to capital allocation had an immediate impact demonstrated in the full year results. Revenue growth of 34% for the six months ended June 30, 2020 compared to the six months ended June 30, 2019 was underpinned by material cost management driving a 69% reduction in total operating loss over the same period, a trend Dixie's management fully expects to continue.

In order to solidify Dixie's platform for long-term, stable growth for our shareholders, the Company has continued to explore capital markets and strategic partnership options with the goal of building on the solid foundations established through 2019 and funding accelerated revenue growth for 2020 and beyond. To that end Dixie engaged in exploratory discussions with various cannabis companies in the United States and Canada. During those discussions, and after careful consideration by Dixie's management, it became increasingly apparent that a business combination with BR Brands was in the best interest of shareholders and Dixie and the proposed merger was announced on March 9, 2020.

Under the terms of the proposed deal, BR Brands will combine operations with Dixie by assuming the publicly traded platform via a reverse takeover. This transaction, expected to be completed early in the third quarter of 2020, will create one of the cannabis industry's leading CPG platforms, strengthening the balance sheet of the combined entity and expected to drive upside synergies as well as operational efficiencies, providing long-term, stable growth for shareholders and a best-in-class product portfolio for consumers across the globe.

The combined company establishes one of the cannabis industry's most comprehensive 'house of brands' anchored by two of the most iconic consumer franchises in the market, Dixie and Mary's. The portfolio also boasts two emerging Californian brands in Rebel Coast and Defonce, a deep CBD program including the Aceso and Therabis brands, and the strategic partnership with Herbal Enterprises, LLC, an affiliate of the AriZona brand. An unrivaled leadership team with deep CPG, Financial and Capital Market experience will guide one of the largest installed manufacturing and distribution footprints for infused products in the cannabis industry with an addressable regulated market spanning 12 US states and territories.

Related Party Transactions

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

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

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

DBI purchased intellectual properties 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 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.

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.

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:

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

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 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.

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

<u>Financial Risk Management</u>

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				
	0-30 days	**31-60 Days**	**61-90 Days**	**91+ Days**	**Total**
Expected credit loss rate	9%	15%	22%	50%	
Gross Carrying Amount	1,513,647	235,219	411,665	3,970,085	6,130,616
Lifetime expected credit loss	133,728	34,982	89,334	1,991,118	2,249,161

The Company has a concentration of credit risk with Left Bank, a related party. 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 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 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**
Financial Assets:						
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
Financial Liabilities:						
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.