

# **DECIBEL CANNABIS COMPANY INC.**

## **Management's Discussion and Analysis**

**For the three and nine months ended September 30, 2020 and 2019  
(In Canadian Dollars)**

## **DECIBEL CANNABIS COMPANY INC.**

### **Management's Discussion and Analysis**

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

---

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Decibel Cannabis Company Inc. and its subsidiaries (the "Company" or "Decibel") is dated as of November 24, 2020.

This MD&A should be read in conjunction with the Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2020, and 2019, inclusive of the accompanying financial statements notes (the "Consolidated Interim Financial Statements"), and in conjunction with the audited consolidated financial statements of the Company for the years ended December 31, 2019 and 2018, inclusive of the accompanying financial statement notes, all of which were prepared in accordance with International Financial Reporting Standards ("IFRS").

All amounts presented within this MD&A are in thousands of Canadian dollars, except share and per share amounts, unless otherwise noted.

This MD&A has been prepared with reference to the National Instrument 51-102 *Continuous Disclosure Obligations* established by the Canadian Securities Administrators. Additional information concerning Decibel, including the Consolidated Interim Financial Statements can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **Advisory**

This MD&A contains non-GAAP measures and forward-looking information about our current expectations, estimates and projections. Readers are cautioned that the MD&A should be read in conjunction with the "*Cautionary Statement Regarding Certain Non-GAAP Performance Measures*" and "*Forward-Looking Information*" sections at the end of this MD&A.

#### **Company Overview**

We Grow BC Ltd. ("We Grow") was incorporated on November 12, 2013, under the provisions of the *Business Corporations Act* (British Columbia). On December 20, 2019, We Grow completed a Plan of Arrangement (the "Arrangement") that constituted a reverse takeover of Westleaf Inc. ("Westleaf"). Following December 20, 2019, the historical financial information of Decibel relates to that of the consolidated entity resulting from the Arrangement. The corresponding financial information for the 2019 comparative periods reflects the historical financial information of We Grow.

On March 1, 2020, pursuant to a series of internal reorganization transactions, Westleaf amalgamated with a wholly-owned subsidiary which resulted in the name of the Company changing to "Decibel Cannabis Company Inc.". The common shares of Decibel ("Common Shares") trade on the TSX-Venture Exchange ("TSX-V") under the ticker symbol "DB" and on the OTCQB Venture Market under the symbol "DBCCF". The Convertible Debentures (as defined herein) trade on the TSX-V under the trading symbol "DB.DB". The Company's warrants trade on the TSX-V under the trading symbol "DB.WT".

#### Description of the Business and Corporate Strategy

Decibel's strategy is to build a cannabis company based on a vertically integrated business model. The three components of this strategy, among others, are:

- i) Cannabis cultivation, processing, and sale of cannabis flower products;
- ii) Extraction, processing, and manufacturing of a variety of cannabis derivative products; and
- iii) Cannabis retail.

## **DECIBEL CANNABIS COMPANY INC.**

### **Management's Discussion and Analysis**

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

---

#### *Cannabis Cultivation*

Decibel has a Health Canada licensed 26,000 square foot cultivation, processing and distribution facility consisting of 14,000 square feet of dedicated grow areas and 12,000 square feet of production support areas located in Creston, British Columbia (the "Creston Facility"). The Company received a licence to grow, harvest, trim and store medical cannabis from Health Canada (the "Licence"), becoming a licensed producer on August 25, 2017. On October 16, 2018, Health Canada approved an amendment to the Licence to allow the Company to, in addition to growing, harvesting, trimming and storing cannabis, also sell or provide dried cannabis, fresh cannabis, cannabis plants and cannabis seed.

The Company has a second cannabis production facility under development in Battleford, Saskatchewan (the "Thunderchild Cultivation Facility"). Construction of the Thunderchild Cultivation Facility was substantially completed in the quarter, with approximately 80,000 square feet of indoor cultivation, packaging, and processing space. Decibel's standard cultivation licence application under the *Cannabis Act*, 2018 (the "*Cannabis Act*") has been entered into the Cannabis Tracking and Licensing System ("CTLS") and is currently under review with Health Canada. Such licence, if granted, will allow Decibel to cultivate cannabis and sell wholesale dried cannabis flower from the Thunderchild Cultivation Facility.

The principal products produced and sold by the Company are ultra-premium cannabis flower and cannabis pre-rolls, and, on occasion, bulk amounts of cannabis biomass to other licensed producers in Canada (collectively, the "Cannabis Products").

The Company has entered into supply agreements with the Alberta Gaming, Liquor and Cannabis Commission (the "AGLC"), the Ontario Cannabis Retail Association, the British Columbia Liquor Distribution Board, the Manitoba Liquor & Lotteries Corporation, and has also agreed to supply Cannabis Products to the Prince Edward Island Cannabis Management Corporation. The Company is registered as a cannabis supplier in Saskatchewan and ships to more than a dozen retail outlets in the province.

Decibel has three dried cannabis brands, two positioned as ultra-premium brands, Qwest, and Qwest Reserve, and one positioned as a core-segment brand, Blendcraft by Qwest.

#### *Extraction and Manufacturing of Cannabis Derivative Products*

Decibel has a large-scale cannabis extraction, processing, and manufacturing facility in Calgary, Alberta ("The Plant"). The Plant is a 60,000 square foot facility with 15,000 square feet of Health Canada licensed space. On July 13, 2020, the Company received a sales amendment from Health Canada for the ability to manufacture and sell dried cannabis, cannabis extracts, and edible cannabis as finished cannabis products to provincial wholesalers and retailers.

Decibel engages in processing, manufacturing, and packaging activities at The Plant. Currently, the company sells vape pens and cannabis extracts (also known as concentrates) from The Plant.

The Company has entered into supply agreements with the Alberta Gaming, Liquor and Cannabis Commission (the "AGLC"), the Ontario Cannabis Retail Association, the British Columbia Liquor Distribution Board, and the Manitoba Liquor & Lotteries Corporation. The Company is registered as a cannabis supplier in Saskatchewan.

## **DECIBEL CANNABIS COMPANY INC.**

### **Management's Discussion and Analysis**

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

---

Decibel has four cannabis derivative product brands, two positioned as ultra-premium brands, Qwest, and Qwest Reserve, one positioned as a core-segment brand, Blendcraft by Qwest, and one positioned as a value-segment brand, General Admission.

#### *Retail Locations and Operations*

Decibel has a portfolio of retail locations across Western Canada. As at September 30, 2020, Decibel had six Prairie Records cannabis retail stores in operation in Saskatchewan and Alberta.

#### *Saskatchewan*

Decibel has three operational retail locations in Saskatchewan, with two stores located in Saskatoon and one in Warman, as well as an e-commerce cannabis platform throughout the Province of Saskatchewan.

#### *Alberta*

Decibel has three operational retail locations in Alberta, with two stores located in Calgary and one in Edmonton. The Company has approval for two municipal development permits in central/south Alberta. Each of these prospective retail locations is subject to AGLC licensing upon completion of construction.

#### *Going Concern*

The Condensed Consolidated Interim Financial Statements and MD&A have been prepared based on accounting policies applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. During the three and nine months ended September 30, 2020, the Company incurred net losses of \$1.4 million and \$7.5 million, respectively, utilized \$1.4 million and \$5.6 million, respectively, of cash in operations and has net current liabilities of \$4.4 million as at September 30, 2020. The effects the Novel Coronavirus ("COVID-19") pandemic have had, and is expected to continue to have, on the overall business environment and financial markets gives rise to uncertainty as to the future impacts COVID-19 may have on the Company.

In order to continue as a going concern, the Company must generate sufficient income and cash flows to repay its obligations, finance operations and fund capital investments. The future of the Company is dependent on its ability to attain profitable operations and maintain compliance with covenants relating to its lending agreements, generate sufficient funds from operations, continue receiving financial support from its lenders and obtain new financing. There is no certainty that the Company will raise these necessary funds from operations or financings.

Based on currently available information, the Company expects to comply with all covenants through the fiscal quarter ending September 30, 2021, however, these results are expected to be near the minimum amounts necessary to comply with some of the financial covenants in certain of those fiscal quarters. If the Company does not comply with the financial covenants, discussion with its lender to obtain necessary waivers will take place but there can be no guarantee that these will be received and its debts may become due on demand. Refer to "*Liquidity and Capital Resources*".

As a result of these factors, there is a material uncertainty that may result in significant doubt as to the ability of the Company to meet its obligations as they come due and continue as a going concern.

This MD&A and the Condensed Consolidated Interim Financial Statements do not reflect adjustments that may be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate, adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses and the statement of financial position classification used.

## DECIBEL CANNABIS COMPANY INC.

### Management's Discussion and Analysis

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

#### Quarterly Highlights

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Net wholesale revenue of flower	\$2,361	\$2,880	\$6,578	\$4,702
Kilograms of flower sold	272	369	782	563
Average wholesale flower gross pricing per gram	\$10.18	\$9.07	\$10.15	\$9.81
Average wholesale flower net pricing per gram	\$8.68	\$7.80	\$8.41	\$8.35
Kilograms of cannabis harvested	311	345	936	1,080
Net wholesale revenue of extracts	\$785	-	\$785	-
Other wholesale revenue	\$500	-	\$565	-
Number of retail stores	6	nil	6	nil
Retail revenue	\$3,932	nil	\$10,578	nil
<b>Total</b>				
Net revenue	\$7,578	\$2,880	\$18,505	\$4,702
Gross profit before fair value adjustments	\$2,898	\$1,126	\$7,164	\$1,804
Adjusted EBITDA (a)	\$860	\$875	\$425	\$0

(a) Adjusted EBITDA is a non-GAAP performance measure. Refer to "Cautionary Statement Regarding Certain Non-GAAP Performance Measures" for further details.

The comparative 2019 results above include only the results of We Grow as referenced in the "Company Overview" section of this document. This is because We Grow was deemed the technical acquirer in the Arrangement.

- Total net revenue for the three and nine months ended September 30, 2020, of \$7.6 million and \$18.5 million, respectively, a \$4.7 million and \$13.8 million increase, respectively, over the comparative periods. The increase is attributable to The Plant derivative product sales beginning in mid September, organic growth in retail sales, and other wholesale revenue.
- Sold 272 and 782 kilograms, respectively, of cannabis for the three and nine months ended September 30, 2020, achieving an average wholesale flower gross price per gram of \$10.18 and \$10.15, respectively (2019 - \$9.07 and \$9.81, respectively). Increases in pricing over the comparative periods are primarily due to a shift towards higher priced cannabis products, improved sales channels, and the introduction of new reserve strains in the current period.
- Kilograms of cannabis harvested for the three and nine months ended September 30, 2020, totalled 311 kgs and 936 kgs, respectively (2019 - 345 kgs and 1,080 kgs, respectively). For the three months ended September 30, 2020, harvested cannabis decreased over the comparative period as a result of switching a vegetative room to a flowering room, which temporarily reduced production. For the nine months ended September 30, 2020, harvested cannabis increased over the comparative period primarily as a result of the addition of a new grow room and capital improvements to increase yields.

## **DECIBEL CANNABIS COMPANY INC.**

### **Management's Discussion and Analysis**

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

---

- Adjusted EBITDA for the three and nine months ended September 30, 2020, was \$860 and \$425, respectively (2019 - \$875 and \$914, respectively). The increase in Adjusted EBITDA is due to strong net revenue growth, primarily from The Plant derivative product sales beginning in mid September.

#### **Recent Developments**

##### *Manufacturing operations*

The Company achieved its first sales of cannabis extracts in late September with total gross sales of \$1.0 million in the third quarter. Decibel launched 10 vape and concentrate SKUs in the third quarter and is targeting the launch of up to 11 additional product SKUs over the next two quarters.

##### *Capital Projects*

On April 13, 2020, the Company submitted a complete site evidence package to Health Canada for the Thunderchild Cultivation Facility. Construction of this facility was substantially completed in the quarter.

##### *Financing*

On September 29, 2020, the Company and the Company's lender, ATB Financial, entered into an amending agreement to, among other things, to make available to the Company a \$1.2 million operating facility to support sales growth and to amend the financial covenants under its credit facilities (the "Credit Facilities"). Refer to "*Liquidity and Capital Resources*".

##### *Cost reduction strategies*

On October 6, 2020, the Company entered into a sublease agreement related to its corporate office space. This will result in a reduction in corporate expenditures. The Company's corporate office will be relocated to a more cost effective space.

##### *COVID-19*

During the three and nine months ended September 30, 2020, a global pandemic was declared related to COVID-19. The global impact of COVID-19 has had a significant impact on economies and financial markets. The impact on the Company cannot be reasonably estimated at this time but could result in, among other things, supply chain issues, customer demand changes for the Company's products, logistical difficulties, personnel shortages as well as increased government regulations or interventions which could impact the Company's financial condition or results of operations. The Canadian federal and provincial governments have deemed cannabis producers and retailers to be essential services and, as such, the Company's operations have been ongoing throughout the pandemic period to date.

Subsequent to period end, COVID-19 has not had any material negative impacts on the Company's ability to generate net revenues. As COVID-19 continues to evolve, this situation could change by way of a change in the status of cannabis as an essential product, a prolonged pandemic period leading to a decrease in demand or supply chain disruptions, change in the municipal, provincial, or federal regulation of emergency orders, measures and guidance, or if any cases occur in any of the Company's facilities or retail locations, a forced temporary shut down, and other unforeseen circumstances not currently known to the Company. The Company has implemented a pandemic response plan and altered its operating procedures in its facilities and retail locations to address the current risks of COVID-19.

**DECIBEL CANNABIS COMPANY INC.****Management's Discussion and Analysis**

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

**Operations**

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Revenue	8,166	3,345	20,047	5,523
Excise taxes	(588)	(465)	(1,542)	(821)
<b>Net revenue</b>	<b>7,578</b>	<b>2,880</b>	<b>18,505</b>	<b>4,702</b>
Cost of goods sold	4,680	1,754	11,341	2,898
<b>Gross profit before fair value adjustments</b>	<b>2,898</b>	<b>1,126</b>	<b>7,164</b>	<b>1,804</b>
Unrealized gain on changes in fair value of biological assets	1,374	158	2,485	951
Change in fair value of biological assets realized through inventory sold	(1,206)	(307)	(2,501)	(827)
<b>Gross profit</b>	<b>3,066</b>	<b>977</b>	<b>7,148</b>	<b>1,928</b>
Selling, general and administration	2,643	461	8,250	1,248
Depreciation and amortization	624	19	1,689	56
Share-based compensation	481	875	2,261	1,163
<b>Loss from operations</b>	<b>(682)</b>	<b>(378)</b>	<b>(5,052)</b>	<b>(539)</b>
Other	(5)	(6)	(32)	(17)
Finance costs	646	17	2,365	27
Foreign exchange loss	9	-	3	-
Gain on disposal of property, plant and equipment	-	-	(13)	-
Listing expense	30	-	149	-
<b>Net loss and comprehensive loss</b>	<b>(1,362)</b>	<b>(389)</b>	<b>(7,524)</b>	<b>(549)</b>

For the three and nine months ended September 30, 2020, the Company recorded net losses of \$1.4 million and \$7.5 million, respectively (2019 – net losses of \$389 and \$549, respectively). The increase in net loss for the three months ended September 30, 2020, was primarily due an increase in Selling, General and Administration Expenses (“SG&A”), partially offset by an increase in gross profit. The increase in gross profit was primarily the result of derivative product sales from The Plant beginning in late September, and other wholesale revenues. The increase in net loss for the nine months ended September 30, 2020, was primarily due to an increase in SG&A, depreciation and amortization, share based compensation and finance costs, partially offset by an increase in net profits. The increase in expenses for the nine-month period are primarily the result of personnel, office, and financing acquired in the Arrangement.

**DECIBEL CANNABIS COMPANY INC.****Management's Discussion and Analysis**

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

*Net Revenue*

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Wholesale revenue	3,734	3,345	8,904	5,523
Other wholesale revenue	500	-	565	-
Excise taxes	(588)	(465)	(1,542)	(821)
<b>Net wholesale revenue</b>	<b>3,646</b>	<b>2,880</b>	<b>7,927</b>	<b>4,702</b>
Retail revenue	3,932	-	10,578	-
<b>Net revenue</b>	<b>7,578</b>	<b>2,880</b>	<b>18,505</b>	<b>4,702</b>

Total net revenue for the three and nine months ended September 30, 2020, of \$7.6 million and \$18.5 million, respectively (2019 - \$2.9 million and \$4.7 million, respectively), relates to sales of dried cannabis from the Company's Creston Facility, sales of newly launched derivative products, and retail operations acquired pursuant to the Arrangement. Net revenue increased over the comparative periods due to derivative product sales from The Plant beginning in mid September, retail operations acquired, increased average wholesale flower pricing, and increased cannabis sales volumes.

		Three months ended		Nine months ended	
		September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Total dried cannabis sales	\$	2,768	3,345	7,938	5,523
Total dried cannabis sold	kg	272	369	782	563
<b>Average wholesale gross flower pricing</b>	<b>\$ / gram</b>	<b>10.18</b>	<b>9.07</b>	<b>10.15</b>	<b>9.81</b>

Average wholesale flower gross pricing for the three and nine months ended September 30, 2020 was \$10.18 per gram and \$10.15 per gram, respectively (2019 - \$9.07 per gram and \$9.82 per gram, respectively). Increases in wholesale pricing over the comparative periods is primarily due to new Qwest and Qwest Reserve strains which are sold at a higher price point. The Comparative period also included sales of cannabis trim in the that was sold at a lower price point.

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	%	%	%	%
Excise taxes as a percentage of wholesale revenue	15.7	13.9	17.3	14.9

Excise taxes as a percentage of wholesale revenue increased over the comparative periods due to the Company expanding its distribution into Alberta, which has a higher excise tax rate than other jurisdictions.

During the three and nine months ended September 30, 2020, the Company sold 272 kgs and 782 kgs, respectively, of dried wholesale cannabis (2019 - 369 kgs and 563 kgs, respectively). The decrease in dried wholesale cannabis sales for the three months ended September 30, 2020, was primarily the result of a decrease in sales of cannabis trim.

## **DECIBEL CANNABIS COMPANY INC.**

### **Management's Discussion and Analysis**

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

---

The increase in sales for the nine months ended September 30, 2020, is due primarily the result of an expanded distribution footprint, new cannabis strains, and the launch of Blendcraft by Qwest.

#### *Cost of Goods Sold*

During the three and nine months ended September 30, 2020, the Company incurred cost of goods sold of \$4.7 million and \$11.3 million, respectively (2019 - \$1.8 million and \$2.9 million, respectively). The increase in cost of goods sold for the three and nine months ended September 30, 2020 are primarily due to destructions and write-downs of the carrying value of aged extraction-grade inventory totaling \$420, the launch of derivative product sales, and cost of goods sold related to stores acquired in the Arrangement, partially offset by reductions in cost per gram of wholesale cannabis.

The Company's accounting policy for cost of goods sold on wholesale cannabis sales was changed in the current year. Refer to "Changes in Accounting Policies".

#### *Unrealized Gain on Changes in Fair Value of Biological Assets*

Unrealized gain on changes in fair value of biological assets represents the markup to fair value of biological assets as they are undergoing biological transformation, based on stage of growth. This fair value is determined as the expected selling price net of costs to sell and costs to complete multiplied by expected production from unharvested plants prorated for their stage of growth. For the three and nine months ended September 30, 2020, the Company recognized unrealized gains of \$1.4 and \$2.5 million, respectively, (2019 - \$0.2 million and \$1.0 million, respectively). The increase over comparative period is primarily due to increases in sales prices and decreases in cost per gram. The increase for the nine-month period over the comparative results also reflect biological assets in excess of net recoverable amounts for the first quarter of 2019.

#### *Change in Fair Value of Biological Assets Realized Through Inventory Sold*

Change in fair value of biological assets realized through inventory sold is the fair value less costs to sell recognized during the biological transformation process related to cannabis sold during the period.

During the three and nine months ended September 30, 2020, the Company recognized a change in the fair value of inventory sold of \$1.2 and \$2.5 million, respectively (2019 - \$0.3 million and \$0.8 million, respectively). The increase for the three-month period ended September 30, 2020 is due to increased fair value of biological assets sold in the current period, partially offset by decreased sales volumes. The increase for the nine-month period ended September 30, 2020, is primarily due to increased sales volumes and fair value of biological assets sold in the period. The nine-month comparative period also reflects biological assets in excess of net recoverable amounts for the first quarter of 2019.

## DECIBEL CANNABIS COMPANY INC.

### Management's Discussion and Analysis

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

#### *Selling, General and Administration*

Details of the most significant expense items in SG&A, are as follows:

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Salaries and wages	1,166	91	3,874	304
Office and general	1,082	57	2,989	298
Marketing and branding	131	35	362	159
Professional fees	123	53	247	93
Travel and accommodation	95	10	241	43
Consulting fees	45	10	342	28
Sellings costs	1	205	195	323
<b>Total selling, general and administration</b>	<b>2,643</b>	<b>461</b>	<b>8,250</b>	<b>1,248</b>

SG&A expenses for the three and nine months ended September 30, 2020, increased over the comparative period primarily as a result of increases in salaries and wages, office and general expenses, and marketing and branding. These costs reflect increased corporate and facilities staff acquired through the Arrangement, as well as severance payments for terminations in the first half of 2020 of \$679, partially offset by COVID-19 related wage subsidies. The Company was eligible to receive certain subsidy amounts under the Canada Emergency Wage Subsidy assistance program that the Government of Canada provided to assist businesses with employee costs during the COVID-19 pandemic. During the three and nine months ended September 30, 2020, amounts of \$nil and \$225, respectively (2019 - \$nil and \$nil, respectively) were recognized as reductions to the salaries and wages line item within the SG&A expenses presented on the condensed consolidated interim statements of comprehensive loss.

The comparative 2019 SG&A results above include only the results of We Grow as referenced in this document resulting from the Arrangement. Had Westleaf and We Grow been combined for the entire 2019 year, SG&A for the three and nine months ended September 30, 2019, would have been \$3.5 million and \$11.5 million, respectively. This reflects a 25% and 32% reduction, respectively, in SG&A for the current period compared to the combined historical results, despite commercial operations in The Plant and new retail store openings in the third quarter of 2020.

#### *Share-Based Compensation*

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Stock options	379	875	1,850	1,163
Restricted Share Units ("RSUs")	82	-	526	-
Other	-	-	(243)	-
Performance warrants	20	-	128	-
<b>Total share-based compensation</b>	<b>481</b>	<b>875</b>	<b>2,261</b>	<b>1,163</b>

## DECIBEL CANNABIS COMPANY INC.

### Management's Discussion and Analysis

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

Share-based compensation for the three months ended September 30, 2020, decreased over the comparative periods due to decreases in employee stock option awards. For the nine months ended September 30, 2020, share-based compensation increased due to increases in employee stock option awards and historical awards to employees acquired in the Arrangement. Other share-based compensation is related to stock incentives granted to a third party that the Company previously had a consulting relationship with. This relationship was terminated in the second quarter, resulting in a reversal of previously recognized compensation that had not yet been vested.

### Adjusted Earnings Before Interest, Tax, Depreciation and Amortization ("Adjusted EBITDA")

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
			\$	\$
Net loss	(1,362)	(389)	(7,524)	(549)
Unrealized gain on changes in fair value of biological assets	(1,374)	(158)	(2,485)	(951)
Change in fair value of biological assets realized through inventory sold	1,206	307	2,501	827
Depreciation and amortization	624	19	1,689	56
Share-based compensation	481	875	2,261	1,163
Other (income) loss	(5)	(6)	(32)	(17)
Finance costs	646	17	2,365	27
Foreign exchange loss	9	-	3	-
Non-cash cost of goods sold (a)	598	210	881	358
Severance payments (b)	-	-	679	-
Other non-cash costs (c)	37	-	87	-
<b>Adjusted EBITDA (d)</b>	<b>860</b>	<b>875</b>	<b>425</b>	<b>914</b>

- (a) Relates to depreciation and amortization included in cost of goods sold, write downs of inventory to net realizable value, and abnormal waste.
- (b) Severance payments are infrequent in nature and are an add-back in the Company's adjusted EBITDA calculation for covenant reporting purposes. These amounts are included in SG&A expenses in the Company's condensed consolidated interim statement of comprehensive loss.
- (c) Other non-cash costs relate to a write down of deposits on terminated retail leases. These amounts are included in SG&A expenses in the Company's condensed consolidated interim statement of comprehensive loss.
- (d) Adjusted EBITDA is a non-GAAP performance measure. Refer to "Cautionary Statement Regarding Certain Non-GAAP Performance Measures" for further details.

The increase in Adjusted EBITDA for the three and nine months ended September 30, 2020, over the comparative periods in 2019 is primarily due The Plant derivative product sales beginning in mid September, other wholesale sales, higher realized pricing, and retail operations acquired through the Arrangement, partially offset by increase in expenditures due to operation and head office staff acquired in the Arrangement.

The Company's Adjusted EBITDA for bank covenant reporting purposes ("Adjusted Bank EBITDA"), also includes the add-back of other non-recurring expenditures and atypical items. The Company's Adjusted Bank EBITDA for loan covenant purposes for the three months ended September 30, 2020, is \$860, which is in compliance with the Company's debt covenant for a minimum Adjusted EBITDA of \$500. Refer to "Cautionary Statement Regarding Certain Non-GAAP Performance Measures" for further details.

## **DECIBEL CANNABIS COMPANY INC.**

### **Management's Discussion and Analysis**

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

---

#### **Statement of Financial Position**

##### *Accounts Receivable*

As at September 30, 2020, the Company had accounts receivable of \$3.1 million (2019 - \$707). This balance primarily consists of three counterparties representing approximately 58% of the Company's net wholesale revenue (2019 - 77.9% three customers). These customers are all governmental authorities and therefore are considered a low credit risk.

##### *Inventory*

As at September 30, 2020, the Company had \$7.9 million (2019 - \$5.0 million) in inventory related to cannabis, cannabis accessories, and raw materials for extraction and packaging. The increase in inventory in the current period is primarily due to growth in raw materials and finished goods at The Plant.

##### *Other Current Assets*

As at September 30, 2020, the Company had other current assets of \$714 (2019 - \$1.3 million). This balance primarily consisted of prepaid expenses, refundable deposits, and pre-payments on inventory in-transit.

##### *Capital Additions*

For the three and nine months ended September 30, 2020, the Company incurred \$0.7 million and \$2.1 million, respectively (2019 - \$nil and \$nil, respectively) in capital additions on the Thunderchild Cultivation Facility. Construction of the Thunderchild Cultivation Facility was substantially completed in the third quarter. The ability of the Thunderchild Cultivation Facility to produce and sell cannabis is also subject to the receipt of a standard cultivation licence and sales amendment from Health Canada. On April 13, 2020, the Company submitted a complete site evidence package to Health Canada for the Thunderchild Cultivation Facility. This capital project was completed within \$200 of expected budgeted cost.

For the three and nine months ended September 30, 2020, the Company incurred \$21 and \$350, respectively (2019 - \$nil and \$nil, respectively) in capital additions on its University of Alberta and Palace Theatre retail locations. These retail stores were opened in the third quarter.

For the three and nine months ended September 30, 2020, the Company incurred a total of \$58 and \$387, respectively (2019 - \$69 and \$135), respectively, in building upgrades to its Creston Facility, as well as \$101 and \$378, respectively (2019 - \$65 and \$285, respectively) in additional production equipment. These additions were related to the development of additional mezzanine space and replacement of grow lights, benches, and other cultivation equipment.

For the three and nine months ended September 30, 2020, the Company incurred a total of \$nil and \$103, respectively (2019 - \$nil and \$nil, respectively) for building upgrades and \$117 and \$273, respectively (2019 - \$nil and \$nil, respectively) for packaging and other production equipment for The Plant.

For the three and nine months ended September 30, 2020, other capital additions of \$44 and \$258, respectively (2019 - \$3 and \$5, respectively) relate to furniture, fixtures, computer hardware and software for corporate purposes.

## DECIBEL CANNABIS COMPANY INC.

### Management's Discussion and Analysis

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

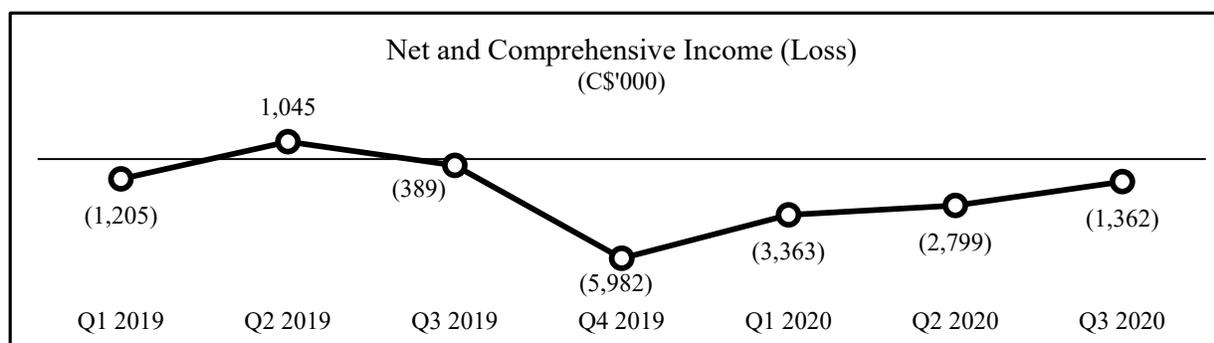
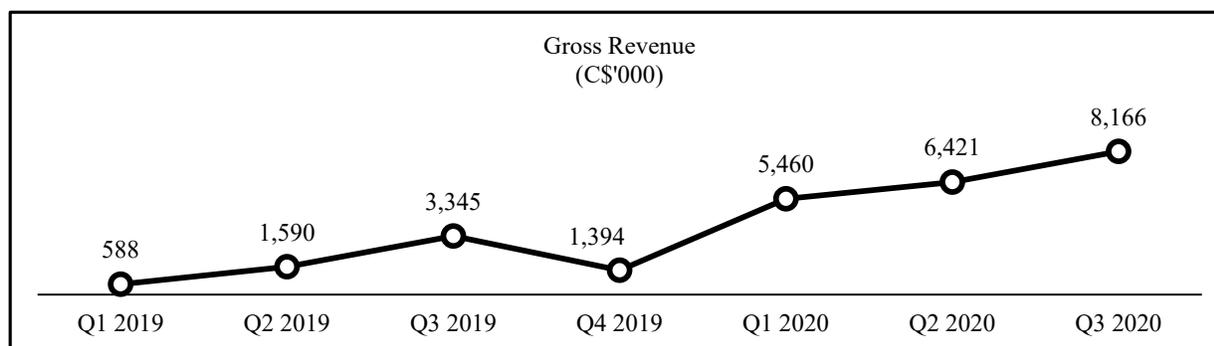
#### *Right-of-Use Assets and Lease Liabilities*

As at September 30, 2020, right-of-use assets totalled \$4.7 million (2019 - \$5.7 million) and lease liabilities totalled \$5.2 million (2019 - \$6.0 million). The decreases over the comparative period primarily relate to the termination of retail leases.

#### Summary of Quarterly Results

The following tables set out certain financial information for each of the Company's prior quarterly reporting periods:

Quarter ended	Gross Revenue	Net and comprehensive income (loss)	Income (loss) per share basic/diluted
	\$	\$	\$
March 31, 2019	588	(1,205)	(0.02) / (0.02)
June 30, 2019	1,590	1,045	0.02 / 0.02
September 30, 2019	3,345	(389)	(0.01) / (0.01)
December 31, 2019	1,394	(5,982)	(0.10) / (0.10)
March 31, 2020	5,460	(3,363)	(0.01) / (0.01)
June 30, 2020	6,421	(2,799)	(0.01) / (0.01)
September 30, 2020	8,166	(1,362)	(0.00) / (0.00)

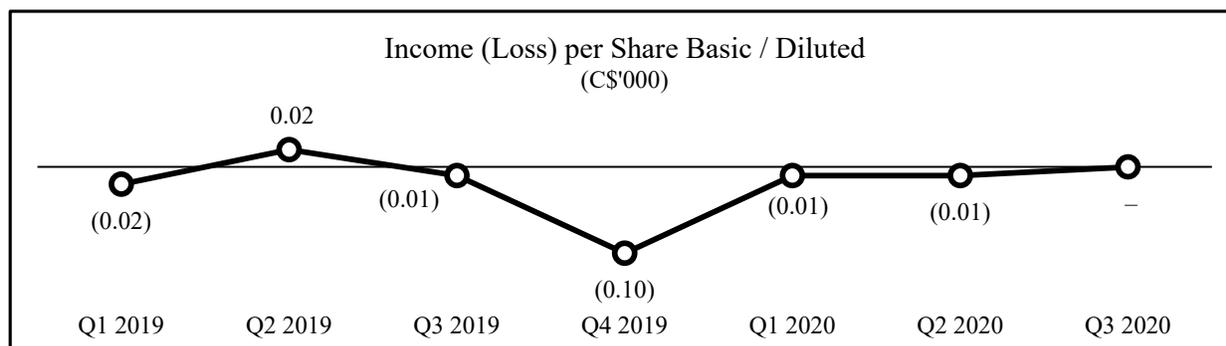


## DECIBEL CANNABIS COMPANY INC.

### Management's Discussion and Analysis

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)



Gross revenue over the last seven quarters has shown growth attributable to growth in the Company's operations. A Health Canada quality assurance hold that was placed on 190 kilograms of the Company's wholesale cannabis product ("the Hold") reduced sales for the three months ended December 31, 2019 and March 31, 2020. The Hold was a result of Health Canada testing requirements on product grown in a new vegetative space in the Company's Creston Facility. The Hold limited inventory available for sale, leading to no sales in December 2019, and reduced sales in January and February of 2020. On January 14, 2020, 50.0 kilograms of the Hold was lifted, and on March 16, 2020, the remaining 140.0 kilograms was lifted. All inventory subject to the Hold was made available for sale in the first quarter of 2020. Gross revenue shows a growth pattern prior to, and subsequent to, the Hold.

Net loss over the last seven quarters fluctuated primarily due to fluctuations in gross revenue. In addition, the first quarter of 2019 was negatively affected by a loss on changes in fair value of biological assets of \$1.1 million, the second quarter of 2019 was positively affected by an increase in unrealized gain from biological assets, the third and fourth quarters of 2019 were negatively affected by an increase in stock-based compensation due to new awards issued, and the fourth quarter of 2019 was impacted by transaction costs related to the Arrangement in the amount of \$2.2 million. Net loss has decreased each quarter in 2020 as a result of cost cutting measure employed by management and increasing revenue.

### Liquidity and Capital Resources

To date, the Company has met its operational and capital requirements primarily through the issuance of Common Shares and Convertible Debentures (as defined herein), the assumption of debt financing, and the generation of net revenues. During the three and nine months ended September 30, 2020, the Company generated the majority of its net revenue from cannabis produced in its Creston Facility, cannabis retail sales, and one partial quarter of sales contributions from The Plant. Decibel is still in the licensing phase for one major facility, the Thunderchild Cultivation Facility. The Company's ability to sustain its capital resourcing needs with cashflows from operations is contingent upon successful completion, licensing, and commercialization of these projects and the availability of future financing to sustain working capital requirements.

The Company's objective when managing its liquidity and capital resources is to maintain sufficient liquidity to support financial obligations as they come due while executing operating and strategic plans. The Company manages its liquidity through preparation and use of cash flow forecasts and budgets to ensure it has sufficient funds to meet obligations as they become due. The Company manages its working capital as part of this process, and in doing so meets its funding needs by pursuing additional debt and equity financing sources, managing the timing of capital expenditures and other measures. Decibel's future business activities require additional debt or equity financing sources to develop and operate. There can be no assurance that additional funding will be available to the Company, or, if available, that this funding will be on acceptable terms. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Refer to "Going Concern".

## DECIBEL CANNABIS COMPANY INC.

### Management's Discussion and Analysis

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

The following table summarizes the Company's capital structure:

As at,	September 30, 2020	December 31, 2019
	\$	\$
Equipment loan (a)	135	329
Term loans (b)	25,853	24,390
Convertible debentures (c)	10,445	9,878
<b>Total debt</b>	<b>36,433</b>	<b>34,597</b>
Share capital	43,106	42,196
<b>Total capitalization</b>	<b>79,539</b>	<b>76,793</b>

- (a) Equipment loan is payable in eighteen monthly installments commencing October 1, 2019.
- (b) Term loans have a two-year term with a maturity date of December 1, 2021. Principal repayments vary by facility and are based on forty-six month to five-year amortization periods, including a \$5.0 million lump sum principal payment due on March 31, 2020. For more information, refer to Note 8 of the Consolidated Interim Financial Statements.
- (c) Convertible debentures consist of unsecured convertible debentures with a face value of \$12.0 million (the "Convertible Debentures"). The Convertible Debentures will mature and be repayable May 10, 2022 to the extent this liability is not converted and exercised into Common Shares.

The increase in Decibel's total capitalization as at September 30, 2020, over the comparative period is primarily related to debt draws on the Company's Credit Facilities and exercises of share-based compensation.

As at September 30, 2020, the Company had a working capital (see "*Cautionary Statement Regarding Certain Non-GAAP Performance Measures*") deficit of \$4.4 million (December 31, 2019 - \$9.0 million), a total consolidated cash position of \$1.1 million (December 31, 2019 - \$11.7 million), unutilized borrowing room on its Credit Facilities of \$774 (December 31, 2019 - \$3.0 million) and an additional borrowing amount of \$13.5 million (December 31, 2019 - \$13.5 million) pending lender approval for additional construction phases. This cash and credit facility borrowing room are available for use towards working capital requirements, servicing of debt, and to cover operating costs and working capital requirements toward the Company reaching positive operational cashflows. The Company currently does not have any capital commitments to complete future retail locations, and the total number and timing of the construction of future retail locations will depend on financing, capital available and changes in the Company's budget and operational plans.

## DECIBEL CANNABIS COMPANY INC.

### Management's Discussion and Analysis

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

The Company's working capital details are as follows:

As at,	September 30, 2020	December 31, 2019
	\$	\$
Cash	1,074	11,654
Accounts receivable	3,078	707
Inventory	7,935	5,016
Other current assets	714	1,283
Biological assets	1,102	885
Accounts payable and accrued liabilities	(7,813)	(8,113)
Current portion of lease liabilities	(616)	(540)
Current portion of equipment loan payable	(135)	(261)
Current portion of long-term debt	(9,730)	(1,621)
<b>Total working capital (a)</b>	<b>(4,391)</b>	<b>9,010</b>

- (a) Working capital is a non-GAAP performance measure. Refer to *Cautionary Statement Regarding Certain Non-GAAP Performance Measures* for further details.

Pursuant to an amended facility agreement dated September 29, 2020, Decibel's Credit Facilities were subject to the following financial covenants as at September 30, 2020:

- (a) Minimum Adjusted Bank EBITDA

The Company must not permit its Adjusted Bank EBITDA to be less than:

\$500 for the fiscal quarter ending September 30, 2020; and  
\$2.2 million for the fiscal quarter ending December 31, 2020.

- (b) Total funded debt to annualized Adjusted Bank EBITDA ratio

Commencing on the fiscal quarter ending March 31, 2021, the Company shall not permit the total funded debt to annualized Adjusted Bank EBITDA ratio to be greater than:

3.25:1.00 for the fiscal quarter ending March 31, 2021; and  
2.50:1:00 for the fiscal quarter ending June 30, 2021 and all fiscal quarters thereafter.

For the fiscal quarter ending March 31, 2021, through to the fiscal quarter ending September 30, 2021, Adjusted Bank EBITDA shall be annualized using the March 31, 2021, fiscal quarter as its first quarterly period in the annualized calculation. For the fiscal quarter ending December 31, 2021 and subsequent, the annualized Adjusted Bank EBITDA will be calculated on a rolling four-quarter basis.

- (c) Current ratio

The Company shall not permit the current ratio, defined as the current assets ratio to current liabilities, excluding the \$5.0 million current portion of long-term debt principal payment due March 31, 2021, on one of the Company's term loans, as presented on the condensed consolidated interim statements of financial position, calculated quarterly on the last day of each fiscal quarter to fall below:

1.05:1.00 for the fiscal quarter ending September 30, 2020;  
1.15:1:00 for the fiscal quarter ending December 31, 2020; and  
1.25:1:00 for the fiscal quarter ending March 31, 2021 and all fiscal quarters thereafter.

## DECIBEL CANNABIS COMPANY INC.

### Management's Discussion and Analysis

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

#### (d) Fixed charge coverage ratio

Commencing on the fiscal quarter ending March 31, 2021, the Company shall not permit the fixed charge coverage ratio to fall below 1.25:1.00. The fixed charge coverage ratio is defined as the ratio of cash flow available for fixed charges to fixed charges. Cash flow available for fixed charges is defined as annualized Adjusted Bank EBITDA. Fixed charges are defined as interest expense payable in cash as at the date of the quarter end calculation plus the aggregate of all schedule principal payments of debt, excluding accounts payable and payroll or other liability accruals in the ordinary course of business, during the quarter reporting period.

#### (e) Minimum liquidity

Commencing May 31, 2020, the Company must not permit its cash and cash equivalents, as defined in the lending agreement, to be less than a minimum monthly stipulated balance ranging from \$1.2 million to \$3.1 million throughout the months of May through December of 2020.

In addition to the above covenants, the Company's Credit Facilities requires certain licences or amendments to licences on or before December 30, 2020 and April 1, 2021, respectively.

The Company met its covenant requirements as at and for the three and nine months ended September 30, 2020. The Company's ability to meet the minimum Adjusted Bank EBITDA, funded debt to Adjusted Bank EBITDA ratio, and fixed charge coverage ratio covenants on a go forward basis are subject to risk of default if these forward earnings requirements are not met. The Company's ability to meet the conditions of these ratio covenants over the next twelve months is subject to the Company's ability to operationalize capital projects that are either recently completed or are subject to Health Canada licensing and operationalizing, and all other applicable regulatory approvals in order to generate revenues. There can be no assurance to the certainty or timing of receiving Health Canada licensing as this process is subject to material risks outside of the Company's control, nor can there be any certainty as to the timing of the Company operationalizing such facilities. In addition, the recent global COVID-19 pandemic poses risks to timing of the Company's future cash flows, which could also have an impact on the Company's forward earnings and ability to meet financial covenants.

### Cash Flows

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Cashflow (used in) provided by operating activities	(1,440)	201	(5,581)	(1,066)
Cash used in activities	(282)	(162)	(5,555)	(463)
Cash (used in) provided by financing activities	(1,083)	(50)	556	1,142
<b>Decrease in cash</b>	<b>(2,805)</b>	<b>(11)</b>	<b>(10,580)</b>	<b>(387)</b>
Cash, beginning of period	3,879	260	11,654	636
<b>Cash, end of period</b>	<b>1,074</b>	<b>249</b>	<b>1,074</b>	<b>249</b>

As at September 30, 2020, Decibel had a consolidated cash balance of \$1.1 million (2019 - \$11.7 million).

For the three months ended September 30, 2020, the Company used \$1.4 million (2019 - generated \$201) in operating activities, and for the nine months ended September 30, 2020, the Company used \$5.6 million (2019 - \$1.1 million) in operations. For the three months ended September 30, 2020, the Company's cash used in operating activities increased primarily due to working capital investment for The Plant operations. The Company's cash used in

## DECIBEL CANNABIS COMPANY INC.

### Management's Discussion and Analysis

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

operating activities for the nine months ended September 30, 2020, increased over the comparative period primarily due to increased SG&A expenses and a negative change in working capital, partially offset by an increase in gross profits before fair value adjustments.

For the three and nine months ended September 30, 2020, cash used by investing activities totalled \$282 and \$5.6 million, respectively (2019 – \$162 and \$463, respectively). Cash used in the current fiscal year primarily relates to additions of property, plant, and equipment (refer to “*Capital Additions*”) and changes in working capital.

For the three and nine months ended September 30, 2020, the Company used \$1.1 million and generated \$556, respectively (2019 – used \$50 and generated \$1.1 million, respectively) in financing activities. During the three-month period, the Company’s financing activities included repayment of its equipment loan, long term debt and lease liabilities. During the nine-month period, the Company’s primary financing activities included the drawdowns on its Credit Facilities (refer to “*Liquidity and Capital Resources*”) partially offset by repayments on its equipment loan, long-term debt, and lease liabilities.

### Contractual Obligations

As at September 30, 2020, the Company had the following contractual obligations:

	Total	<1 Year	<2 Years	<3 Years	<4 Years	<5 Years	Thereafter
	\$	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	7,813	7,813	-	-	-	-	-
Lease liabilities	4,807	952	906	901	546	253	1,249
Finance Lease Liability (a)	135	135	-	-	-	-	-
Long-term debt (a)	27,744	11,125	16,619	-	-	-	-
Convertible debentures (a)	14,122	1,140	12,982	-	-	-	-
<b>Total</b>	<b>54,621</b>	<b>21,165</b>	<b>30,507</b>	<b>901</b>	<b>546</b>	<b>253</b>	<b>1,249</b>

(a) Includes expected interest payments until maturity date.

### Commitments

#### *Equipment Purchases*

The Company is committed to aggregate payments of \$209 pertaining to equipment purchases for the production facilities which are currently in the process of being manufactured or delivered by various suppliers.

#### *Legal Claims*

The Company may become defendants in legal actions taken against the Company. Decibel is not aware of any material or significant claims against the Company.

## **DECIBEL CANNABIS COMPANY INC.**

### **Management's Discussion and Analysis**

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

---

#### **Outstanding Share Data**

As at the date of this MD&A, the Company had 348 million Common Shares outstanding, 26.7 million Common Share purchase warrants outstanding, 3.9 million RSUs outstanding, and 36.9 million stock options outstanding.

#### *Capital*

As at September 30, 2020 and September 30, 2019, the Company was authorized to issue:

An unlimited number of Common Shares

An unlimited number of preferred shares

Common Shares held by the Company's founders and the Company's largest shareholder, Thunder Developments Inc., are held in escrow under a staged release schedule which, was initially over a thirty-six month period that commenced January 7, 2019, and which, was decreased to an eighteen-month period from January 7, 2019, in connection with the Company's graduation from a Tier 2 to Tier 1 issuer status on the TSX-V. In addition, the Common Shares issued to former holders of common shares in the capital of We Grow pursuant to the Arrangement, are held in escrow over a twelve-month staged release which commenced on December 20, 2019. Total escrowed Common Shares as at September 30, 2020, amount to 55.1 million Common Shares (approximately 16% of the Common Shares outstanding).

#### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements as at September 30, 2020, in the Consolidated Interim Financial Statements nor as at the date of this MD&A that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company.

#### **Changes in Accounting Policies**

*Adoption of new and amended standards and interpretations and change in accounting policies*

##### Biological Assets

The Company's biological assets consist of cannabis plants which are not yet harvested. These biological assets are measured at fair value less costs to sell and costs to complete. At the point of harvest, the biological assets are transferred to inventory at fair value less costs to sell and costs to complete. Unrealized fair value gains or losses arising from changes in fair value less cost to sell are included in the condensed consolidated interim statements of loss and comprehensive loss in the related period.

Effective January 1, 2020, the Company changed its accounting policy with respect to the direct and indirect costs incurred related to the biological transformation of its biological assets prior to the time of harvest. These costs are now capitalized as incurred to the biological assets that are presented on the condensed consolidated interim statements of financial position. The former accounting policy recognized these costs as production expenses in the condensed consolidated interim statements of loss and comprehensive loss in the period in which they were incurred. The Company believes this change provides reliable and more relevant financial information to users of the condensed consolidated interim financial statements by more accurately matching the costs of inventory sold in the period in which a corresponding sale occurs.

The change in accounting policy has been applied retrospectively. Decibel has restated the comparative figures in the Condensed Consolidated Interim Financial Statements. The following tables summarize the effects of the changes described above on the presented figures.

**DECIBEL CANNABIS COMPANY INC.****Management's Discussion and Analysis**

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

For the three months ended September 30, 2019:

Condensed consolidated interim statement of loss and comprehensive loss	New accounting policy	Former accounting policy	Net impact
	\$	\$	\$
Unrealized gain on changes in fair value of biological assets	157	2,331	(2,174)
Cost of goods sold	(1,754)	(1,786)	32
Change in fair value of biological assets realized through inventory sold	(307)	(2,449)	2,142
<b>Net loss</b>			-

Condensed consolidated interim statement of cash flows	New accounting policy	Former accounting policy	Net impact
Non-cash:			
Unrealized gain on changes in fair value of biological assets	(157)	(2,331)	2,174
Change in fair value of biological assets realized through inventory sold	307	2,449	(2,142)
Operating working capital	(150)	(118)	(32)
<b>Net change in cash</b>			-

For the nine months ended September 30, 2019:

Condensed consolidated interim statement of loss and comprehensive loss	New accounting policy	Former accounting policy	Net impact
	\$	\$	\$
Unrealized gain on changes in fair value of biological assets	951	4,902	(3,951)
Cost of goods sold	(2,898)	(4,137)	1,239
Change in fair value of biological assets realized through inventory sold	(827)	(3,539)	2,712
<b>Net loss</b>			-

## DECIBEL CANNABIS COMPANY INC.

### Management's Discussion and Analysis

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

	New accounting policy	Former accounting policy	Net impact
<b>Condensed consolidated interim statement of cash flows</b>			
Non-cash:			
Unrealized gain on changes in fair value of biological assets	(951)	(4,902)	3,951
Change in fair value of biological assets realized through inventory sold	827	3,539	(2,712)
Operating working capital	124	1,363	(1,239)
<b>Net change in cash</b>			-

#### IFRS 3 Business Combinations

Effective January 1, 2020, the Company adopted the amendments that were issued by the International Accounting Standards Board on October 22, 2018, to IFRS 3 Business Combinations, which clarified the classification of whether a transaction results in an asset or a business acquisition.

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The adoption of the amendment to IFRS 3 had no impact on the Company's Condensed Consolidated Interim Financial Statements as at and for the three and nine months ended September 30, 2020.

#### Government Grants and Assistance

The Company recognizes an unconditional government grant or assistance when the amount becomes receivable. Amounts related to assets are recognized as reductions of the carrying amount of the associated assets on the condensed consolidated statements of financial position. Amounts related that compensate the Company for expenses incurred are presented as a reduction of the associated expense item on the condensed consolidated interim statements of comprehensive income (loss).

#### **Critical Accounting Estimates**

Critical judgements, estimates and assumptions that have the most significant effect on the amounts recognized on Decibel's financial statements remain unchanged from that discussed in the annual MD&A for the year ended December 31, 2019, as filed on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **Financial Instruments**

IFRS requires that the Company disclose information about the fair value of our financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, term loan debt, and Convertible Debentures. Management estimates that the fair value of its cash, accounts receivable, and accounts payable and accrued liabilities approximates their carrying values as at September 30, 2020, due to the relatively short maturity periods of these instruments. Term loan debt approximates fair value as it bears a floating rate of interest. The fair value of the Convertible Debentures as at September 30, 2020, was \$2.4 million.

## DECIBEL CANNABIS COMPANY INC.

### Management's Discussion and Analysis

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

---

#### Cautionary Statement Regarding Certain Non-GAAP Performance Measures

This MD&A contains certain financial performance measures that are not recognized or defined under IFRS (termed "Non-GAAP Measures"). As a result, this data may not be comparable to data presented by other licenced producers and cannabis companies. For an explanation of these measures to related comparable financial information presented in the Consolidated Interim Financial Statements prepared in accordance with IFRS, refer to the discussion below. The Company believes that these Non-GAAP Measures are useful indicators of operating performance and are specifically used by management to assess the financial and operational performance of the Company. These Non-GAAP Measures include, but are not limited, to the following:

- **Adjusted EBITDA:** Adjusted EBITDA is a measure of the Company's financial performance. It is intended to provide a proxy for the Company's operating cash flow and is widely used by industry analysts to compare Decibel to its competitors and derive expectations of future financial performance of the Company. Adjusted EBITDA increases comparability between comparative companies by eliminating variability resulting from differences in capital structures, management decisions related to resource allocation, and the impact of fair value adjustments on biological assets, inventory, and financial instruments, which may be volatile on a period to period basis. Adjusted EBITDA is not a recognized, defined, or standardized measure under IFRS. The Company calculates Adjusted EBITDA as net and comprehensive income (loss) excluding unrealized gain on changes in fair value of biological assets, change in fair value of biological assets realized through inventory sold, depreciation and amortization expense, share-based compensation, other (income) loss, finance costs, foreign exchange (gain) loss, non-cash cost of goods sold, severance payments, and other non-cash costs. Non-cash cost of goods sold relate to amortization expense allocations included in cost of goods sold. Refer to "*Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization*" for a detailed calculation of this measure. The numbers that are input into this calculation can be found in the statement of financial position in the Company's Consolidated Interim Financial Statements, unless otherwise stated and explained in "*Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization*".
- **Adjusted Bank EBITDA:** The Company's Adjusted Bank EBITDA for bank covenant purposes also includes other one-time expenditures and atypical items as approved by the lender in addition to the Company's Adjusted EBITDA.
- **Working Capital:** Working Capital is an indicative measure of the Company's ability to service its short-term financial obligations with short-term assets. Management believes this measure provides useful information about the Company's current short-term liquidity. Refer to "*Liquidity and Capital Resources*" for a detailed calculation of this measure. The numbers that are input into this calculation can be found in the statement of financial position in the Company's Consolidated Interim Financial Statements.

#### Other MD&A Disclosures

##### *Forward-Looking Information*

This MD&A may contain "forward-looking information" with respect to the Company. This information may take the form of statements found within this document expressing the Company's expectations as to future outcomes and events based on the information currently available. All statements contained herein are given as at the date of this MD&A and the Company undertakes no obligation to update the information for new events or circumstances other than as required by securities laws. Refer to "*Forward-Looking Information*".

Forward-looking information and statements may be identifiable by the use of words such as "achieve", "anticipate", "budget", "could", "estimate", "expect", "future", "forecast", "intend", "may", "might", "occur", "plan", "potential", "prospective", "should", "will", "would" and other similar expressions.

By nature, forward-looking information and statements are inherently subject to the risk that the actual results can be materially different from the expected outcomes. The Company does not provide any assurance as to the accuracy of this forward-looking information and statements and cautions readers not to place undue reliance on such.

## DECIBEL CANNABIS COMPANY INC.

### Management's Discussion and Analysis

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

---

Certain forward-looking statements in this MD&A include, but are not limited to:

- expectations described in the Company's critical accounting judgements, estimates and assumptions;
- the Company's expectations regarding the adoption and impact of certain accounting pronouncements;
- the Company's expectations regarding future development, costs and operation of the Company's extraction and manufacturing facility The Plant the Thunderchild Cultivation Facility, and the Creston Facility;
- the Company's expectations for the authorization and approval of cannabis products to be manufactured;
- the Company's expectations regarding future development, operation, and licensing of the Company's retail locations;
- the Company's expectations regarding obtaining and maintaining licensing related to the cultivation, production and sale of cannabis and cannabis products by the Company, its subsidiaries, affiliates and partnerships;
- the ability to operate as a vertically integrated entity;
- The Company's expectations with respect to its ability to comply with its financial covenants;
- the Company's expectations of product sales and its ability to maintain wholesale, provincial and retail customers;
- future corporate development;
- expectations regarding future expenditures, including but not limited to both operational and capital expenditures;
- the Company's interpretation and future expectations of municipal, provincial, and federal regulations;
- the Company's expectation for the use of proceeds received from fund raising activities;
- the Company's ability to achieve profitability without the need for further fund-raising activities;
- The Company's ability to ensure that it has sufficient funds to meet obligations as they become due;
- the Company's ability to access debt financing; and
- the Company's impact assessment of COVID-19 (as defined herein).

There are many risks and other factors beyond the Company's control which could cause results to differ materially from those expressed in the forward-looking statements contained in this MD&A. These risks and other factors include, but are not limited to the risk factors considered under "*Other MD&A Disclosures*" in this MD&A.

#### *Industry Trends and Risks*

Decibel's industry trends and risks remain unchanged from that discussed in the annual MD&A for the year ended December 31, 2019, as filed on SEDAR at [www.sedar.com](http://www.sedar.com).