

DECIBEL CANNABIS COMPANY INC.

**Condensed Consolidated Interim Financial Statements
(Unaudited)**

**For the three and nine months ended September 30, 2021 and 2020
(In Canadian Dollars)**

DECIBEL CANNABIS COMPANY INC.**Condensed Consolidated Interim Statements of Financial Position**

As at September 30, 2021 and December 31, 2020

(Unaudited - In thousands of Canadian dollars)

	Notes	September 30, 2021	December 31, 2020
Assets			
Current assets			
Cash		11,313	3,820
Accounts receivable	3	9,586	3,829
Other current assets	6	3,255	854
Biological assets	4	2,025	1,076
Inventory	5	25,442	10,285
		51,621	19,864
Property, plant and equipment		58,703	59,933
Right-of-use assets		3,493	3,189
Other long-term assets	6	1,900	933
Investments		240	240
Intangible assets		182	315
Goodwill		4,259	4,259
		120,398	88,733
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		18,130	12,111
Current portion of lease liabilities		776	491
Current portion of equipment loan		-	68
Current portion of long-term debt	7	11,896	1,634
Convertible debentures		11,354	-
		42,156	14,304
Long-term lease liabilities		3,838	3,904
Long-term debt	7	24,751	26,431
Other long-term liabilities	9	459	-
Convertible debentures		-	10,663
		71,204	55,302
Shareholders' equity			
Share capital	8	53,416	43,114
Reserves	9	14,381	10,009
Deficit		(18,603)	(19,692)
		49,194	33,431
		120,398	88,733
Going concern (Note 1)			
Commitments and contingencies (Note 17)			
Approved on behalf of the board:			
		<u>Signed: Director</u>	<u>Signed: Chairman</u>

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

DECIBEL CANNABIS COMPANY INC.**Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)**

For the three and nine months ended September 30, 2021 and 2020

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

		Three months ended		Nine months ended	
		September 30		September 30	
		2021	2020	2021	2020
Revenue					
Gross revenue		16,992	8,166	48,150	20,047
Excise taxes		(3,623)	(588)	(9,715)	(1,542)
Net revenue	10	13,369	7,578	38,435	18,505
Cost of goods sold		9,268	4,680	24,261	11,341
Gross profit before fair value adjustments		4,101	2,898	14,174	7,164
Unrealized gain on changes in fair value of biological assets	4	7,184	1,374	15,539	2,485
Change in fair value of biological assets realized through inventory sold		(6,149)	(1,206)	(9,692)	(2,501)
Gross profit		5,136	3,066	20,021	7,148
Selling, general and administration	12	3,915	2,673	11,378	8,399
Depreciation and amortization		954	624	2,770	1,689
Share-based compensation	9	117	481	1,620	2,261
		4,986	3,778	15,768	12,349
Income (loss) from operations		150	(712)	4,253	(5,201)
Non-operating items					
Finance costs	11	1,038	646	3,044	2,365
Foreign exchange (gain) loss		52	9	133	3
Loss (gain) on disposal of property, plant and equipment and right-of-use assets		-	-	34	(13)
Other income		(14)	(5)	(34)	(32)
		1,076	650	3,177	2,323
Income (loss) before income taxes		(926)	(1,362)	1,076	(7,524)
Income tax expense (recovery)					
Current		(13)	-	(13)	-
		(13)	-	(13)	-
Net income (loss) and comprehensive income (loss)		(913)	(1,362)	1,089	(7,524)
Income (loss) per share	13				
Basic		0.00	(0.00)	-	(0.02)
Diluted		0.00	(0.00)	0.00	(0.02)
Weighted average number of shares outstanding	13				
Basic		358,219,105	348,352,981	352,095,933	347,392,755
Diluted		369,658,128	348,352,981	363,534,956	347,392,755

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

DECIBEL CANNABIS COMPANY INC.**Condensed Consolidated Interim Statements of Changes in Equity**

For the nine months ended September 30, 2021 and 2020

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

	Number of shares (Note 8)	Share capital (Note 8)	Reserves			Deficit	Total
			Warrants (Note 9)	Convertible debentures	Share-based payments (Note 9)		
Balance, January 1, 2021	348,489,373	43,114	672	1,938	7,399	(19,692)	33,431
Exercise of restricted share units	1,833,161	342	-	-	(342)	-	-
Proceeds from exercise of stock options	1,639,811	352	-	-	(81)	-	271
Share based compensation	-	-	-	-	1,028	-	1,028
Shares issued through bought deal financing	51,750,000	10,846	4,251	-	-	-	15,097
Share issuance costs, net of tax	-	(1,238)	(484)	-	-	-	(1,722)
Comprehensive income	-	-	-	-	-	1,089	1,089
Balance, September 30, 2021	403,712,345	53,416	4,439	1,938	8,004	(18,603)	49,194

	Number of shares (Note 8)	Share capital (Note 8)	Reserves			Deficit	Total
			Warrants (Note 9)	Convertible debentures	Share- based payments (Note 9)		
Balance, January 1, 2020	343,573,171	42,196	554	1,938	5,679	(10,482)	39,885
Exercise of restricted share units	4,836,202	895	-	-	(895)	-	-
Exercise of performance warrants	80,000	15	(15)	-	-	-	-
Share based compensation	-	-	133	-	2,615	-	2,748
Share issuance costs, net of tax	-	8	-	-	-	-	8
Comprehensive loss	-	-	-	-	-	(9,210)	(9,210)
Balance, December 31, 2020	348,489,373	43,114	672	1,938	7,399	(19,692)	33,431

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

DECIBEL CANNABIS COMPANY INC.**Condensed Consolidated Interim Statements of Cash Flows**

For the nine months ended September 30, 2021 and 2020

(Unaudited - In thousands of Canadian dollars)

	Notes	2021	Nine months ended September 30 2020
Cash provided by (used in)			
Operating activities			
Net income (loss)		1,089	(7,524)
Depreciation and amortization		2,770	1,689
Non-cash finance costs	11	779	753
Unrealized gain on changes in fair value of biological assets		(15,539)	(2,485)
Change in fair value of biological assets realized through inventory sold		9,692	2,501
Share-based compensation	9	1,620	2,261
Loss (gain) on disposal of property, plant and equipment and right-of-use assets		34	(13)
Inventory provision for destruction events	5	833	-
Other non-cash items		(8)	-
Changes in non-cash working capital	15	(13,297)	(3,044)
Cash used in operating activities		(12,027)	(5,862)
Investing activities			
Purchase of property, plant and equipment		(1,771)	(3,825)
Purchase of investments		-	(124)
Purchase of intangible assets		(22)	(17)
Changes in non-cash working capital	15	(222)	(1,589)
Cash used in investing activities		(2,015)	(5,555)
Financing activities			
Proceeds from issuance of common shares	8	271	-
Proceeds from bought deal financing	8	15,008	-
Proceeds from long-term debt	7, 15	9,990	3,000
Repayment of long-term debt	15	(1,376)	(1,451)
Financing fees	15	(119)	(271)
Payment (reimbursement) of share issuance costs	8	(1,722)	-
Repayment of equipment loan	15	(68)	(194)
Repayment of lease liabilities	15	(449)	(247)
Cash provided by financing activities		21,535	837
Increase (decrease) in cash		7,493	(10,580)
Cash, beginning of period		3,820	11,654
Cash, end of period		11,313	1,074

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

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2021 and 2020

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

1. Nature of operations and general information

(a) Nature of operations

We Grow B.C. Ltd. (“We Grow”), was incorporated on November 12, 2013, under the provisions of the British Columbia Business Corporations Act. Westleaf Inc. (“Westleaf”), formerly IGC Resources Inc., was incorporated as 433034 BC Ltd. under the laws of British Columbia in 1992 and continued into the Yukon Territory under the Business Corporations Act (Yukon) on March 3, 2000. Effective July 21, 2004, International Green Ice Inc. was continued out of the Yukon Territory back into British Columbia and changed its name to IGC Resources Inc. (“IGC”). On December 28, 2018, IGC completed a reverse takeover transaction (the “Transaction”) with Westleaf and concurrently continued into the province of Alberta and changed its name to Westleaf. On January 9, 2019, Westleaf began trading again on the TSX-V under the ticker symbol “WL”, changed to “DB” on March 1, 2020. In addition, on February 27, 2019, Westleaf Inc. began trading on the OTCQB Venture Market under the symbol “WSLFF”. Westleaf Inc.’s convertible debentures trade on the TSX-V under the trading symbol “WL.DB”.

On December 20, 2019, We Grow completed a plan of arrangement (the “Arrangement”) that constituted a reverse takeover of Westleaf and its subsidiaries.

On March 1, 2020, the Company underwent a corporate structure reorganization which resulted in renaming Westleaf Inc. to Decibel Cannabis Company Inc., a TSX-V ticker symbol change from “WL” to “DB”.

The condensed consolidated interim financial statements for the three and nine months ended September 30, 2021, include Decibel Cannabis Company Inc. and its subsidiaries (together referred to as the “Company” or “Decibel”).

The Company is a vertically integrated cannabis company with two licensed cultivation facilities since 2019 and 2021, a licensed processing and extraction facility since 2020, and six cannabis retail store locations.

(b) General information

The head office and principal address of the Company is Suite 1440, 140 - 4 Avenue SW, Calgary, AB, Canada.

Subsidiary	Place of incorporation	Percentage of ownership	Accounting method
Decibel Cannabis Company Inc.	Alberta	100%	Consolidation
Westleaf Retail Inc.	Alberta	100%	Consolidation
Decibel Labs Holdings Inc.	Alberta	100%	Consolidation
Westleaf Labs Inc.	Alberta	100%	Consolidation
Westleaf Labs LP	Alberta	100%	Consolidation
We Grow B.C. Ltd.	British Columbia	100%	Consolidation
1070582 B.C. Ltd.	British Columbia	100%	Consolidation
R. Spetifore & Sons Ltd.	British Columbia	100%	Consolidation
Thunderchild Holdings Inc.	Alberta	100%	Consolidation
dB Thunderchild Cultivation Inc.	Alberta	100%	Consolidation
dB Thunderchild Cultivation LP	Alberta	100%	Consolidation
dB Retail Holdings Inc.	Alberta	100%	Consolidation
dB Retail LP	Alberta	100%	Consolidation

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

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Measurement Uncertainty COVID-19

The global impact of the Novel Coronavirus (“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 it could result in, among other things, supply chain issues, customer demand changes for the Company’s products, logistics difficulties, personnel shortages as well as increased government regulations or interventions which could impact the Company’s financial condition or results of operations.

(c) Going concern

The condensed consolidated interim financial statements 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 nine-month period ended September 30, 2021, the Company earned a net income of \$1.1 million, utilized funds of \$12.0 million in its operations and has net current assets of \$9.5 million. The effects that the COVID-19 pandemic have had, and are expected to continue to have, on the overall business environment and financial markets give rise to uncertainty as to the future impacts it may have on the Company. 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.

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.

As a result of these factors, there is 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.

The Company expects to comply with the financial covenants applicable to our credit facility for at least the next twelve months. On May 14, 2021, the Company amended its credit facility agreement with Connect First Credit Union Ltd. (“Connect First”) to provide an additional \$6.0 million on its authorized overdraft (Note 7). A decrease or sustained period of materially reduced demand for Decibel’s principal products may result in non-compliance with the financial covenants and reduced liquidity related to changes in the credit facility. Non-compliance with the financial covenants in the credit facility could result in the debt becoming due and payable on demand. Should the Company anticipate non-compliance, Decibel will proactively approach its lender to amend the credit facilities to ensure their availability. There is no certainty that the Company will be successful in negotiating such amendments.

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 for these condensed consolidated interim financial statements, 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.

Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

2. Basis of presentation

(a) Statement of compliance

The condensed consolidated interim financial statements of the Company have been prepared in accordance with International Accounting Standards 34, *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards (“IFRS”).

The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. The accounting policies and critical estimates applied by the Company in the condensed consolidated interim financial statements are the same as those applied in the Company’s annual consolidated financial statements for the year ended December 31, 2020. Accordingly, these financial statements should be read in conjunction with the annual consolidated financial statements as at and for the year ended December 31, 2020, as filed on SEDAR at www.sedar.com.

The condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors of the Company on November 17, 2021.

(b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for biological assets which are measured at fair value.

(c) Functional currency and presentation of foreign currency

The functional currency of the Company and all of its subsidiaries is Canadian dollars. These condensed consolidated interim financial statements are presented in Canadian dollars unless otherwise noted.

(d) Basis of consolidation

Directly and indirectly controlled entities are treated as subsidiaries of the Company and are included in the condensed consolidated interim financial statements. Control exists when the Company has the power to govern the financial and operating policies of an entity and be exposed to the variable returns achieved by the entity. All significant intercompany balances and transactions are eliminated on consolidation.

DECIBEL CANNABIS COMPANY INC.**Notes to the Condensed Consolidated Interim Financial Statements**

For the three and nine months ended September 30, 2021 and 2020

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

3. Accounts receivable

	September 30, 2021	December 31, 2020
Accounts receivable	9,429	3,763
Receiver general	157	66
Balance	9,586	3,829

Decibel has not set up any allowance for the accounts presented above as they are considered fully collectible.

4. Biological assets

	September 30, 2021
Balance, beginning of year	1,076
Unrealized gain on changes in fair value of biological assets	15,539
Capitalized costs during biological transformation	6,113
Transferred to inventory upon harvest	(20,703)
Balance, end of period	2,025

The Company measures its biological assets at their fair value less costs to sell and complete. This is determined using a model which estimates the expected harvest yield per plant applied to the estimated price per gram less costs to sell and complete.

The following significant unobservable inputs, all of which are classified as level 3 on the fair value hierarchy, were used by Management as part of this model:

- Selling price per gram - determined wholesale fair market value selling price of dry flower and trim, net of excise taxes.
- Stage of growth - represents the weighted average number of weeks out of the 16-week growing cycle that biological assets have reached as of the measurement date.
- Yield by plant - represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant.
- Post-harvest costs - the costs are based on actual processing costs incurred by drying, trimming, testing, and packaging activities incurred in the period, including overhead allocations for these activities.

DECIBEL CANNABIS COMPANY INC.**Notes to the Condensed Consolidated Interim Financial Statements**

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(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

The following table quantifies each significant unobservable input, and also provides the dollar impact on a 10% increase/decrease in each input would have on the fair value of biological assets.

			10% change as at September 30, 2021	10% change as at December 31, 2020
	September 30, 2021	December 31, 2020		
Weighted average selling price per gram	8.71	9.97	337,000	142,000
Stage of growth	50%	54%	228,000	51,000
Yield per plant (average)	34.30 grams	35.40 grams	228,000	51,000
Post-harvest cost per gram	\$0.95	\$1.84	49,000	(34,000)

The Company accretes fair value on a straight-line basis according to stage of growth. As a result, a cannabis plant that is 50% through its 16 weeks growing cycle would be ascribed approximately 50% of its harvest date expected fair value less remaining processing and selling costs.

During the nine months ended September 30, 2021, the Company harvested 1,932 kilograms of dried cannabis and trim (2020 - 936 kilograms). As of September 30, 2021, it was expected that the Company's biological assets would yield approximately 397 kilograms of dried cannabis and trim if harvested today (December 31, 2020 - 184).

5. Inventory

	September 30, 2021	December 31, 2020
Wholesale		
Raw materials	16,992	5,183
Work in process	2,534	2,465
Finished goods	4,938	1,733
Retail		
Cannabis	891	809
Accessories	82	89
Merchandise	5	6
Balance	25,442	10,285

The fair value changes in biological assets included in wholesale inventories sold during the three and nine months ended September 30, 2021, account for \$6.1 million and \$9.7 million loss, respectively (2020 - \$1.2 million loss and \$2.5 million loss). During the three and nine months ended September 30, 2021, inventories of \$9.3 million and \$24.3 million, respectively were recognized as an expense (2020 - \$4.7 million and \$11.3 million). During Q3 2021, an inventory provision of \$922 was recorded pertaining to the Plant inventory write offs. This provision was recorded in wholesale inventory (\$833) and changes in fair value of biological assets realized through inventory sold (\$89). The inventory provision is primarily related to the write off of unusable hardware, packaging materials, and various items related to discontinued products, as well as inventory held to satisfy an aged supply agreement that was mutually terminated.

DECIBEL CANNABIS COMPANY INC.**Notes to the Condensed Consolidated Interim Financial Statements**

For the three and nine months ended September 30, 2021 and 2020

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

6. Other Assets

	September 30, 2021	December 31, 2020
Prepaid expenses	1,292	640
Deposits	1,875	155
Sub-lease receivable	88	59
Current	3,255	854
Deposits	1,618	584
Sub-lease receivable	282	349
Long-term	1,900	933

A portion of the deposits balance as at September 30, 2021, is comprised of refundable deposit amounts pertaining to the retail locations. The remaining portion of the deposits balance is related to a genetics purchase agreement that Decibel entered into on January 1, 2021, as well as prepayments on vape cartridges and glass tube packaging for pre-rolls.

The sub-lease receivable asset relates to a leased corporate head office real property location that has been sub-leased to a third party for a term of fifty-two months.

7. Loans

Type of loan	Maturity date	September 30, 2021	December 31, 2020
SBL loan	December 1, 2021	122	-
Battleford term loan	December 1, 2025	15,531	15,758
Creston term loan	December 1, 2025	5,081	5,415
Calgary term loan	December 1, 2025	6,467	6,892
Authorized overdraft	On demand	9,446	-
		36,647	28,065
Current		11,896	1,634
Long-term		24,751	26,431

On July 1, 2021, Decibel entered into a short-term loan with SBL contractors to complete construction at the Thunderchild Cultivation Facility. This loan will be fully repaid on December 1, 2021. On May 14, 2021, Decibel entered into an amended credit facility agreement with Connect First which increased the Company's authorized overdraft amount up to an additional \$6.0 million, bringing the total available amount to \$7.5 million. The additional capital was fully drawn as of September 30, 2021. The overdraft limit was temporarily increased on September 2, 2021 by \$2.0 million, and was repaid on October 1, 2021.

Financial covenants

The credit agreement is subject to the following financial covenants. Due to their unsecured and subordinated position to our lender, convertible debentures are excluded from all ratio calculations.

a. Debt service coverage ratio

The Company shall not permit the debt service coverage ratio, defined as earnings before interest, depreciation, and amortization ("EBITDA") less dividends declared or shareholder distributions, divided by the sum of all

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scheduled principal and interest paid by the Company for its current fiscal reporting year, calculated annually, on all Connect First loans, to fall below 1.40:1.00.

The debt service coverage ratio will be tested for the first time for the full year ending December 31, 2021.

b. Debt to equity ratio

The Company shall not permit the debt to equity ratio, defined as total liabilities divided by total equity adjusted for lender approved adjustments for conversions and appraisals, as presented on the consolidated statements of financial position, calculated annually to be greater than:

0.75:1.00 for the fiscal year ended December 31, 2021;

0.50:1.00 for all fiscal years ending thereafter.

c. Current ratio

The Company shall not permit the current ratio, defined as the current assets ratio to current liabilities adjusted for lender approved adjustments to remove convertible debentures, as presented on the consolidated statements of financial position, calculated monthly on the last day of each month to fall below 1.25:1.00.

At September 30, 2021, the current ratio was 1.68:1.00.

8. Share capital

Common shares issued and outstanding

The Decibel Cannabis Company Inc. is listed on the TSX-V under the trading symbol "DB".

	Number of shares	Share capital \$
Balance, January 1, 2020	343,573,171	42,196
Share issuance costs, net of tax	-	8
Exercise of performance warrants	80,000	15
Exercise of restricted share units	4,836,202	895
Balance, December 31, 2020	348,489,373	43,114
Bought deal financing	51,750,000	10,846
Share issuance costs, net of tax		(1,238)
Proceeds from exercise of stock options (Note 9(b))	1,639,811	352
Exercise of restricted share units (Note 9(c))	1,833,161	342
Balance, September 30, 2021	403,712,345	53,416

Bought deal financing

On September 16, 2021, the Company closed a bought deal financing, pursuant to which the Company issued 51,750,000 units valued at \$15.1 million which were comprised of one common share of the Company and one-half share purchase warrant. The total consideration of the units issued was allocated \$10.8 million to common shares and \$4.2 million to share purchase warrants. Each full share purchase warrant is exercisable at a price of \$0.40 per share for a period of thirty-six months from the date of closing. In connection with the financing, the Company incurred share issuance costs of \$1.7 million.

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(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

9. Share-based payments**Equity-settled share-based instruments**

(a) Warrants

	Financing warrants	Performance warrants	Total	Weighted average exercise price \$/share
Outstanding, January 1, 2020	29,757,235	1,015,000	30,772,235	1.055
Expired	(16,951,715)	(935,000)	(17,886,715)	1.189
Exercised	-	(80,000)	(80,000)	0.001
Outstanding December 31, 2020	12,805,520	-	12,805,520	0.868
Issued	28,980,000	-	28,980,000	0.388
Outstanding, September 30, 2021	41,785,520	-	41,785,520	0.535
Weighted average exercise price \$/share	0.535	-	0.535	n/a

Expiry date	Number of warrants	Number vested and exercisable	Exercise price \$/share
December 19, 2021	7,539,366	7,539,366	0.280
May 5, 2022	4,620,000	4,620,000	1.650
May 5, 2022	646,154	646,154	2.130
September 16, 2023	3,105,000	3,105,000	0.290
September 16, 2024	25,875,000	25,875,000	0.400
	41,785,520	41,785,520	0.535

On September 16, 2021, 25,875,000 warrants were issued as part of a bought deal financing arrangement. In addition, 3,105,000 broker warrants were issued to the underwriters in association with this deal. Share-based compensation expense recognized in the condensed consolidated interim statements of income (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2021, was \$78 and \$89, respectively (2020 - \$20 and \$128).

Fair Value

The fair value of the warrants granted in the three and nine months ended September 30, 2021 was estimated using the Black-Scholes valuation model for a total fair value of \$5.8 million with the following assumptions:

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Volatility	156% - 178%
Risk-free interest rate	0.43% - 0.44%
Expected life	2 - 3 yrs
Dividend yield	Nil
Forfeiture rate	0.00%
Share price	\$0.20

(b) Stock options

The stock option plan includes grants to officers, directors, employees, and consultants. Each stock option entitles the holder to one common share issuable at the exercise price with a straight-line vesting period over a one-year term for directors, and up to a five-year term for all other holders.

	Number of options	Weighted average exercise price \$/share	Fair Value \$
Outstanding, January 1, 2020	24,350,390	0.40	n/a
Issued	16,950,184	0.09	537
Forfeited	(4,530,827)	0.38	n/a
Outstanding December 31, 2020	36,769,747	0.26	n/a
Issued	6,746,001	0.23	1,488
Exercised	(1,639,811)	0.16	n/a
Forfeited	(1,576,706)	0.12	n/a
Outstanding September 30, 2021	40,299,231	0.27	n/a

The Company may issue up to 65.9 million common shares under its combined stock option and restricted stock unit plans.

Expiry date	Number of options	Number vested and exercisable	Exercise price \$/share
November 1, 2022	1,279,200	1,279,200	0.09
January 8, 2023	799,500	799,500	0.24
April 10, 2023	1,599,000	1,599,000	0.24
December 4, 2023	1,100,400	1,100,400	0.50
January 1, 2024	14,007,240	14,007,240	0.47
December 31, 2024	14,465,707	4,630,149	0.09
December 31, 2024	302,183	100,727	0.09
December 31, 2025	4,246,001	-	0.17
December 31, 2025	2,500,000	-	0.34
	40,299,231	23,516,216	0.27

DECIBEL CANNABIS COMPANY INC.**Notes to the Condensed Consolidated Interim Financial Statements**

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Fair value

The fair value of the stock options issued was estimated using the Black-Scholes valuation model with the following assumptions:

Volatility	101% - 177%
Risk-free interest rate	0.24% - 0.56%
Expected life	0.37 - 2.71
Dividend yield	Nil
Forfeiture rate	0.00%
Share price	\$0.06 - \$0.28

Share compensation expense recognized in the condensed consolidated interim statements of income (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2021, was \$240 and \$1.1 million, respectively (2020 - \$379 and \$1.9 million).

(c) Restricted share units

The Company has a Restricted Share Unit (“RSU”) plan for directors, officers, employees or affiliates of Decibel (“RSU Participants”). Each RSU entitles the RSU Participant to one common share or cash payment at the option of the Company with a straight-line vesting period over a one-year term for directors and up to a three-year term for all other participants. The RSU is exercisable at the option of the holder. The Company may issue up to 65.9 million common shares under its combined stock option and RSU plans.

	Units	Weighted average issue price \$
Outstanding January 1, 2020	8,806,530	0.19
Issued	78,500	0.15
Exercised	(4,836,202)	0.19
Forfeited	(130,167)	0.18
Outstanding December 31, 2020	3,918,661	0.18
Exercised	(1,833,161)	0.19
Forfeited	(349,667)	0.19
Outstanding September 30, 2021	1,735,833	0.18

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Expiry date	Units	Units vested and exercisable
October 3, 2021	50,000	50,000
January 1, 2022	85,000	85,000
May 16, 2022	825,000	825,000
October 3, 2022	460,500	460,500
April 3, 2023	33,333	33,333
May 6, 2023	215,000	215,000
January 1, 2024	17,000	15,335
February 18, 2025	50,000	50,000
	1,735,833	1,734,168

Share compensation expense recognized in the condensed consolidated interim statements of income (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2021, was \$nil and \$26 recovery, respectively (2020 - \$82 and \$526).

(d) Share-based compensation expense

Total share-based compensation expense incurred was as follows:

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Equity-settled awards:				
Stock options	240	379	1,054	1,850
Restricted share units	-	82	(26)	526
Warrants	78	20	89	128
Other (i)	-	-	-	(243)
Cash-settled awards:				
Deferred share units	(241)	-	426	-
Restricted share units	40	-	77	-
Total	117	481	1,620	2,261

(i) Recovery of previously expensed share-based compensation, due to forfeitures following an agreement termination

Cash-settled share-based instruments

The Company has a cash-settled RSU plan for directors, officers, employees, or affiliates of Decibel (“eligible Participants”). Each RSU entitles the eligible Participant to the cash equivalent of one common share for each vested RSU. The cash-settled RSUs awarded will vest in three equal portions on January 1 in year 2022, 2023 and 2024, and will be settled in cash on those vesting dates.

The Company has a cash-settled deferred share unit (“DSU”) plan for directors of Decibel. Each DSU entitles the eligible Participant to the cash equivalent of one common share for each vested DSU. The cash-settled DSUs are fully vested upon being credited to a Director’s DSU Account and will be redeemed upon the Director’s departure from the Company.

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At each reporting date, between grant and settlement date of the cash-settled share-based instruments, the fair value of the liability is re-measured with any changes in fair value recognized in net income (loss) for the period. The short-term portion of cash-settled share-based compensation is presented in accrued liabilities (\$44). The long-term portion of cash-settled share-based compensation liability is presented in other long-term liabilities (\$459).

	Cash-settled RSUs	Cash-settled DSUs	Fair Value \$
Balance at January 1, 2021			
Issued	1,125,148	2,083,096	658
Forfeited	(287,324)	-	(59)
Outstanding at September 30, 2021	837,824	2,083,096	599

Share compensation expense recognized in the condensed consolidated interim statements of income (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2021, was recovery of \$201 and expense of \$503, respectively (2020 - \$nil and \$nil).

10. Revenue

The Company's revenue is comprised of wholesale sales of both products and services through its production facilities to distributors and licensed cannabis producers as well as the direct sale of products through the Company's retail locations to end customers.

Revenue is presented net of any actual sales returns and estimated variable consideration for future returns and price adjustments as well as cannabis excise taxes payable to the government on any applicable sales.

The estimated variable consideration is based on historical experience and management's expectation of future returns and price adjustments. As at September 30, 2021, the return liability for the estimate of future returns and price adjustments was \$41 (December 31, 2020 - \$117) and is included in accounts payable and accrued liabilities on the condensed consolidated interim statements of financial position.

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Gross wholesale revenue of flower	3,893	3,268	12,067	8,503
Gross wholesale revenue of extract	9,701	966	25,547	966
Gross wholesale revenue	13,594	4,234	37,614	9,469
Retail revenue	3,398	3,932	10,536	10,578
Gross revenue	16,992	8,166	48,150	20,047
Excise taxes	(3,623)	(588)	(9,715)	(1,542)
Net revenue	13,369	7,578	38,435	18,505

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11. Finance costs

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Cash finance costs				
Interest convertible debentures	285	285	855	855
Interest on term loans (i)	401	(18)	1,119	476
Interest leases	77	91	225	281
Interest other	6	-	66	-
	769	358	2,265	1,612
Non-cash finance costs				
Accretion convertible debentures	236	196	691	567
Accretion financing fees	33	92	88	186
	269	288	779	753
Total	1,038	646	3,044	2,365

12. Selling, general and administration expenses

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Salaries and wages	2,051	1,166	5,499	3,874
Office and general	1,150	1,112	4,163	3,138
Consulting fees	169	45	616	342
Professional fees	120	123	263	247
Travel and accommodation	180	95	372	241
Marketing and branding	245	131	465	362
Third party selling costs	-	1	-	195
Total	3,915	2,673	11,378	8,399

13. Earnings per share

Income (loss) per share represents the income (loss) attributable to common shareholders divided by the weighted average number of common shares outstanding during the period.

Diluted income (loss) per share is calculated by dividing the income (loss) by the sum of the weighted average number of common shares outstanding as well as all additional common shares that would have been outstanding if potentially dilutive outstanding shares instruments had been issued as common shares during the period.

For the nine months ended September 30, 2021, there were 11,439,023 dilutive instruments were included in the computation of diluted net earnings per common share.

For the nine months ended September 30, 2021, there were 72,381,564 potentially dilutive instruments were excluded from the computation of diluted net earnings per common share as they were anti-dilutive. The other periods presented in the condensed consolidated interim statements of income (loss) and comprehensive income

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(loss) reported a net loss and comprehensive loss and, as such, the applicable outstanding shares instruments are considered anti-dilutive.

14. Segmented information

(a) Reportable segments

The company operates in one vertically integrated segment, cannabis operations, which encompasses the production, distribution, and sale of recreational cannabis.

(b) Geographic information

All revenues were generated in Canada for the three and nine months ended September 30, 2021 and 2020. All property, plant and equipment and intangible assets are located within Canada.

(c) Major customers

For the three months ended September 30, 2021, three customers represented approximately 91.7% of the Company's net wholesale revenue (2020 – three customers 62.2%). These customers were all governmental authorities, as is typical for the industry.

For the nine months ended September 30, 2021, three customers represented approximately 89.6% of the Company's net wholesale revenue (2020 – three customers 74.5%). These customers were all governmental authorities, as is typical for the industry.

15. Supplemental cash flow disclosures

Changes in non-cash working capital items are as follows:

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Accounts receivable	(5,757)	(2,371)
Other current assets	(2,401)	569
Biological assets	(15,128)	(5,095)
Inventory	5,547	2,582
Other long-term assets	(967)	(18)
Accounts payable and accrued liabilities	6,020	(300)
Total	(12,686)	(4,633)

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Working capital change relating to operating activities	(12,464)	(3,044)
Working capital change relating to investing activities	(222)	(1,589)
Total	(12,686)	(4,633)

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The following table reconciles the financing items on the condensed consolidated interim statements of financial position to the condensed consolidated interim statements of cash flows:

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
	Financing liabilities (i)	Financing liabilities (i)
Balance at January 1, 2021 and 2020 (ii)	43,191	40,547
Cash changes:		
Proceeds from authorized overdraft	122	-
Proceeds from term loans	9,868	3,000
Financing fees paid	(119)	(271)
Repayment of equipment loan	(68)	(194)
Repayment of lease liabilities	(449)	(247)
Repayment of term loans	(1,376)	(1,451)
Non-cash changes:		
Accretion financing charges	88	186
Accretion convertible debentures	691	567
Right of use additions and non cash adjustments	667	(476)
	<u>52,615</u>	<u>41,661</u>

(ii) Includes current and long-term portions.

(iii) Comprised of lease liabilities, equipment loan, term loan debt and convertible debentures.

16. Financial instruments and risk management

(a) Fair value of financial instruments

The Company's financial instruments consist of cash, investments, deposits included in other assets, accounts receivable, accounts payable and accrued liabilities, equipment loan, long-term debt, and convertible debentures. The carrying values of these financial instruments, excluding the long-term debt and the convertible debentures, approximate their fair values as at September 30, 2021, given that they are short-term in nature. The carrying value of the long-term debt approximates its fair value, irrespective of the fixed interest rate, due to the timeliness of the incurrence of the term loan debt given that the credit facility was entered in to on December 31, 2020. The fair value of the convertible debentures as at September 30, 2021, was \$9.7 million and was determined using level one inputs as the debentures are traded on the TSX-V under the trading symbol "DB.DB".

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs for the asset or liability that are not based on observable market data.

There have been no transfers between fair value levels during the year.

DECIBEL CANNABIS COMPANY INC.

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The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring, and approving the Company's risk management processes.

Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk from its cash, accounts receivable and investments. The risk exposure is limited to their carrying amounts at the statement of financial position date.

The risk for cash is mitigated by holding these instruments with highly rated Canadian financial institutions.

The investments consist mainly of guaranteed investment certificates held with banks with high credit ratings assigned by international credit-rating agencies. Management believes the risk of loss is low.

Accounts receivable consists of goods and services taxes recoverable ("GST") as well as amounts owing from customers for wholesale product. Credit risk associated with the GST receivable balances is minimal due to the nature of the amounts. The Company evaluates the credit worthiness of the customer counterparties before credit is granted.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. See Note 1 and Note 18 for further details on the going concern assumption and capital management, respectively.

In the absence of any commitments as outlined in Note 17, the Company has the following contractual obligations:

	Total	<1 Year	<2 Years	<3 Years	<4 Years	<5 Years	Thereafter
Accounts payable and accrued liabilities	18,130	18,130	-	-	-	-	-
Lease liabilities	4,255	1,093	947	535	337	133	1,210
Loans and borrowings ⁽ⁱ⁾	56,033	26,470	3,912	3,913	3,912	17,826	-
Other long term liabilities	114	-	57	57	-	-	-
Total	78,532	45,693	4,916	4,505	4,249	17,959	1,210

- (i) Assumes the principal balance of the debentures outstanding as at September 30, 2021, remains unconverted and includes the interest payments until the maturity date.

Market risk

a) Currency risk

The operating results and financial position of the Company are reported in Canadian dollars. The Company may work with US-sourced vendors and suppliers resulting in exposure to foreign currency exchange translation gains and losses. As at September 30, 2021, the Company does not have material currency risk.

b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. A 1.0% change in the effective interest rate on the overdraft, which bears floating rates of interest, would result in an estimated annual impact to profit or loss of \$95.

DECIBEL CANNABIS COMPANY INC.

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c) Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company currently holds no instruments that are susceptible to price risk arising from uncertainties about their future values.

17. Commitments and contingencies

Equipment purchases

The Company is committed to payments of \$609 pertaining to equipment purchases for the production facilities currently in the process of being manufactured or delivered by various suppliers.

Legal claims

From time to time, the Company is involved in various claims and legal actions which occurred in the ordinary course of operations, the losses from which, if any, are not anticipated to be material to the financial statements.

18. Capital management

The Company's objectives when managing its capital are to ensure its ability to continue as a going concern while maintaining the needed resources to fund ongoing operations and development to provide returns to its shareholders.

The Company manages its capital structure and makes adjustments to it in consideration of changes in economic conditions and the risk characteristics of the Company's underlying assets. To maintain or adjust its capital structure, the Company may issue new shares or new debt.

The Company defines capital as total equity and debt financing. As at September 30, 2021, the Company's total capital \$101.4 million (December 31, 2020 - \$81.9 million) consisted of an equipment loan, current and long-term debt, convertible debentures as well as share capital.

As disclosed in Note 7, the Company's debt financing is subject to financial covenants. As at September 30, 2021, the Company is in compliance with all covenants. As at September 30, 2021, the Company is not subject to externally imposed capital requirements.