

DECIBEL CANNABIS COMPANY INC.

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

**For the three and nine months ended September 30, 2022 and 2021
(In Canadian Dollars)**

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

As at September 30, 2022 and December 31, 2021

(Unaudited - In thousands of Canadian dollars)

	Notes	September 30, 2022	December 31, 2021
		\$	\$
Assets			
Current assets			
Cash		4,405	1,919
Accounts receivable	3	17,114	12,839
Other current assets	6	3,117	4,756
Biological assets	4	2,226	2,460
Inventory	5	46,070	34,656
		72,932	56,630
Property, plant and equipment			
		58,107	58,864
Right-of-use assets			
		4,063	3,343
Other long-term assets	6	3,077	2,412
Intangible assets		348	421
Goodwill		4,259	4,259
		142,786	125,929
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		43,111	24,961
Current portion of lease liabilities		641	732
Current portion of long-term debt	7	8,635	9,806
Convertible debentures		-	11,616
		52,387	47,115
Long-term lease liabilities			
		3,775	3,689
Long-term debt	7	35,662	24,057
Other long-term liabilities		782	333
		92,606	75,194
Shareholders' equity			
Share capital	8	53,422	53,420
Reserves		16,022	15,264
Deficit		(19,264)	(17,949)
		50,180	50,735
		142,786	125,929

Going concern (Note 1)

Commitments and contingencies (Note 17)

Approved on behalf of the board:

"Michael Kelly"

Signed: Director

"Cody Church"

Signed: Chairman

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, 2022 and 2021

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

		Three months ended		Nine months ended	
		2022	September 30 2021	2022	September 30 2021
Revenue					
Gross revenue		28,512	16,992	78,603	48,150
Excise taxes		(10,190)	(3,623)	(25,074)	(9,715)
Net revenue	10	18,322	13,369	53,529	38,435
Cost of goods sold		8,871	9,268	30,585	24,261
Gross profit before fair value adjustments		9,451	4,101	22,944	14,174
Unrealized gain on changes in fair value of biological assets	4	5,425	7,184	12,856	15,539
Change in fair value of biological assets realized through inventory sold		(3,182)	(6,149)	(15,516)	(9,692)
Gross profit		11,694	5,136	20,284	20,021
Selling, general and administration	12	5,614	3,915	14,874	11,378
Depreciation and amortization		895	954	2,714	2,770
Share-based compensation	9	(738)	117	1,355	1,620
		5,771	4,986	18,943	15,768
Income (loss) from operations		5,923	150	1,341	4,253
Non-operating items					
Finance costs	11	637	1,038	2,464	3,044
Foreign exchange loss		99	52	216	133
Loss on disposal of property, plant and equipment and right-of-use assets		81	-	81	34
Transaction costs		-	-	10	-
Other income		(63)	(14)	(115)	(34)
		754	1,076	2,656	3,177
Income (loss) before income taxes		5,169	(926)	(1,315)	1,076
Income tax expense					
Current		-	(13)	-	(13)
Deferred		-	-	-	-
		-	(13)	-	(13)
Net income (loss) and comprehensive income (loss)		5,169	(913)	(1,315)	1,089
Income (loss) per share	13				
Basic		0.01	-	-	-
Diluted		0.01	-	-	-
Weighted average number of shares outstanding	13				
Basic		404,054,387	358,219,105	404,053,811	352,095,933
Diluted		480,431,159	358,219,105	404,053,811	363,534,956

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, 2022 and 2021

(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	Convertible debentures	Contributed surplus (Note 9)		
	#	\$	\$	\$	\$	\$	\$
Balance, January 1, 2022	404,028,200	53,420	4,312	1,938	9,014	(17,949)	50,735
Exercise of restricted share units	1,665	1	-	-	(1)	-	-
Exercise of stock options	24,522	1	-	-	(1)	-	-
Share based compensation	-	-	-	-	760	-	760
Warrants Expiry	-	-	(46)	-	46	-	-
Repayment of convertible debentures	-	-	-	(1,938)	1,938	-	-
Comprehensive loss	-	-	-	-	-	(1,315)	(1,315)
Balance, September 30, 2022	404,054,387	53,422	4,266	-	11,756	(19,264)	50,180

	Number of shares (Note 8)	Share capital (Note 8)	Reserves			Deficit	Total
			Warrants (Note 9)	Convertible debentures	Contributed surplus (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

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, 2022 and 2021
(Unaudited - In thousands of Canadian dollars)

	Notes	2022	Nine months ended September 30 2021
		\$	\$
Cash provided by (used in)			
Operating activities			
Net income (loss)		(1,315)	1,089
Depreciation and amortization		2,712	2,770
Non-cash finance costs	11	463	779
Unrealized gain on changes in fair value of biological assets		(12,856)	(15,539)
Change in fair value of biological assets realized through inventory sold		15,516	9,692
Share-based compensation		1,355	1,620
Loss on disposal of property, plant and equipment and right-of-use assets		81	34
Inventory provision for destruction events		-	833
Other non-cash items		858	(8)
Changes in non-cash working capital	15	1,558	(13,297)
Cash from operating activities		8,372	(12,027)
Investing activities			
Purchase of property, plant and equipment		(3,426)	(1,771)
Purchase of intangible assets		-	(22)
Changes in non-cash working capital		47	(222)
Cash from investing activities		(3,379)	(2,015)
Financing activities			
Proceeds from issuance of common shares	8	1	271
Proceeds from bought deal financing	8	-	15,008
Proceeds from long-term debt	7, 15	38,367	9,990
Repayment of long-term debt	15	(27,879)	(1,376)
Financing fees	15	(133)	(119)
Share issuance costs		(1)	(1,722)
Repayment of equipment loan	15	-	(68)
Repayment of lease liabilities	15	(862)	(449)
Repayment of convertible debentures	15	(12,000)	-
Cash from financing activities		(2,507)	21,535
Increase in cash		2,486	7,493
Cash, beginning of period		1,919	3,820
Cash, end of period		4,405	11,313

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, 2022 and 2021

(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, 2022, 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 cultivation facilities, one of which received its licensing in January of 2021, a processing and extraction facility which received its licensing in 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

For the three and nine months ended September 30, 2022 and 2021

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

1. Nature of operations and general information (continued)

(c) 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.

(d) 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, 2022, the Company incurred a net loss of \$1.3 million, generated cash flows of \$8.4 million from operations and has net current assets of \$20.5 million as of September 30, 2022. 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 maintain 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 its credit facility for at least the next twelve months. 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. As certain covenants are expected to be near the minimum amounts necessary, the Company maintains active communications with its lender.

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

For the three and nine months ended September 30, 2022 and 2021

(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, 2021. Accordingly, these financial statements should be read in conjunction with the annual consolidated financial statements as at and for the year ended December 31, 2021, 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 10, 2022.

(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.

(e) Standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations of standards have been issued by the IASB and the international Financial Reporting Interpretations Committee, respectively, the application of which is effective for period beginning on or after January 1, 2023. The company does not expect the implementation of these new accounting pronouncements to have a significant impact on its accounting policies.

3. Accounts receivable

	September 30, 2022	December 31, 2021
Accounts receivable	\$ 16,879	\$ 12,651
Receiver general	235	188
Balance, end of period	17,114	12,839

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

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

For the three and nine months ended September 30, 2022 and 2021

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

4. Biological assets

	September 30, 2022	December 31, 2021
Balance, beginning of year	2,460	1,076
Unrealized gain on changes in fair value of biological assets	12,856	25,199
Capitalized costs during biological transformation	6,536	8,966
Transferred to inventory upon harvest	(19,626)	(32,781)
Balance	2,226	2,460

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.

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.

	September 30, 2022	December 31, 2021	10% change as at September 30, 2022	10% change as at December 31, 2021
Weighted average selling price per gram	6.16	8.20	\$ (552,864)	\$ 300,000
Stage of growth	52%	46%	(608,713)	172,000
Yield per plant (average)	31.76 grams	33.70 grams	(608,713)	172,000
Post-harvest cost per gram	\$0.49	\$1.37	(708,760)	(42,000)

The Company accretes fair value on a straight-line basis according to stage of growth. As a result, a cannabis plant that is 52% through its 16 weeks growing cycle would be ascribed approximately 52% of its harvest date expected fair value less remaining processing and selling costs.

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

For the three and nine months ended September 30, 2022 and 2021

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

5. Inventory

	September 30, 2022	December 31, 2021
	\$	\$
Wholesale		
Raw materials	32,501	22,566
Work in process	5,558	4,415
Finished goods	7,146	6,931
Retail		
Cannabis	789	648
Accessories	74	91
Merchandise	2	5
Balance, end of period	46,070	34,656

6. Other Assets

	September 30, 2022	December 31, 2021
	\$	\$
Prepaid expenses	2,084	998
Deposits	939	3,668
Sub-lease receivable	94	90
Current	3,117	4,756
Deposits	2,889	2,153
Sub-lease receivable	188	259
Long-term	3,077	2,412

A portion of the deposits balance as at September 30, 2022, 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, 2022	December 31, 2021
		\$	\$
Battleford term loan	December 1, 2025	-	15,159
Creston term loan	December 1, 2025	-	4,952
Calgary term loan	December 1, 2025	-	6,302
Connect First commercial mortgage loan	January 1, 2027	26,658	-
Connect First commercial mortgage loan	January 31, 2034	11,647	-
Authorized overdraft	On demand	5,992	7,450
		44,297	33,863
Current		8,635	9,806
Long-term		35,662	24,057

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

7. Loans (continued)

On February 1, 2022, Decibel entered into an amended and restated credit facility agreement with the Lender providing for an aggregate principal amount of \$54 million and are comprised of \$40.5 million of commercial mortgage loans, a \$6.0 million authorized overdraft, and an accordion line of \$7.5 million.

There are two mortgage loans with the Lender which mature on January 1, 2027 and January 31, 2034 respectively. The mortgage loans are subject to a fixed 4.75% interest rate on each of the loans and a prime plus 1.00% interest rate on its overdraft facility.

The credit agreement security consists of a registered first charge mortgage of \$28.5 million on the lands, other than the Battleford, Alberta, facility lands which are leased, a tri-partite agreement made between the Battleford, Alberta, facility land lessor, the Company, and the Lender as well as first ranking security interest on all of the Company's registered property.

Financial covenants:

The credit agreement is subject to the following financial covenants as follows:

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 scheduled principal and interest paid by the Company for its current fiscal reporting year, calculated quarterly, to fall below 1.40:1.00.

At September 30, 2022, the debt service coverage ratio is 2.92:1.00.

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 1.00:1.00.

As of December 31, 2021, the debt to equity ratio was 0.71:1.00.

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, 2022, the current ratio was 1.39:1.00.

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

For the three and nine months ended September 30, 2022 and 2021

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

8. Share capital and reserves

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, 2021	348,489,373	43,114
Bought deal financing	51,750,000	10,845
Exercise of stock options	1,664,333	354
Exercise of restricted share units	2,124,494	396
Share issuance costs, net of tax	-	(1,289)
Balance, December 31, 2021	404,028,200	53,420
Exercise of stock options (Note 9(a))	24,522	1
Exercise of restricted share units (Note 9(b))	1,665	1
Balance, September 30, 2022	404,054,387	53,422

9. Contributed surplus

(a) Warrants

	Financing warrants	Total	Weighted average exercise price \$/share
Outstanding, January 1, 2021	12,805,520	12,805,520	0.868
Issued	28,980,000	28,980,000	0.388
Expired	(7,539,366)	(7,539,366)	0.280
Outstanding December 31, 2021	34,246,154	34,246,154	0.591
Expired	(5,266,154)	(5,266,154)	1.709
Outstanding, September 30, 2022	28,980,000	28,980,000	0.388
Weighted average exercise price \$/share	0.388	0.388	n/a

Expiry date	Number of warrants	Number vested and exercisable	Exercise price \$/share
September 16, 2023	3,105,000	3,105,000	0.290
September 16, 2024	25,875,000	25,875,000	0.400
	28,980,000	28,980,000	0.388

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

For the three and nine months ended September 30, 2022 and 2021

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

9. Contributed surplus (continued)

(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
	#	\$
Outstanding January 1, 2021	36,769,747	0.26
Issued	6,746,001	0.23
Exercised	(1,664,333)	0.16
Forfeited	(2,042,647)	0.13
Outstanding December 31, 2021	39,808,768	0.27
Issued	3,471,294	0.14
Exercised	(24,522)	0.09
Forfeited	(1,124,921)	0.49
Outstanding September 30, 2022	42,130,619	0.25

The Company may issue up to 60.4 million common shares under its combined stock option, restricted stock unit and deferred 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
June 14, 2024	13,900,643	9,267,089	0.47
December 31, 2024	14,334,981	9,462,059	0.09
January 1, 2026	4,246,001	1,415,334	0.17
January 1, 2026	2,500,000	833,333	0.34
January 1, 2027	3,471,294	-	0.14
Outstanding September 30, 2022	42,130,619	24,655,515	0.25

Fair value

The fair value of the stock options issued, during the nine-month period ended September 30, 2022, was estimated using the Black-Scholes valuation model with the following assumptions:

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

For the three and nine months ended September 30, 2022 and 2021

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

9. Contributed surplus (continued)

Volatility (%)	87% - 181%
Risk-free interest rate (%)	1.24% - 1.36%
Expected life (years)	4.83
Dividend yield (\$)	Nil
Forfeiture rate (%)	5.00%
Share price (\$)	\$0.15

(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. Each RSU is exercisable at the option of the holder. The Company may issue up to 60.4 million common shares under its combined stock option, RSU and DSU plans.

	Outstanding	Weighted average issue price
	#	\$
Outstanding January 1, 2021	3,918,661	0.18
Exercised	(2,124,494)	0.19
Forfeited	(349,667)	0.19
Outstanding December 31, 2021	1,444,500	0.18
Exercised	(1,665)	0.19
Outstanding September 30, 2022	1,442,835	0.19

Expiry date	Number of units	Number vested and exercisable
	#	\$
October 3, 2021	50,000	50,000
January 1, 2022	35,000	35,000
May 16, 2022	825,000	825,000
October 3, 2022	237,500	237,500
April 3, 2023	33,335	33,335
May 6, 2023	200,000	200,000
January 1, 2024	12,000	12,000
February 18, 2025	50,000	50,000
	1,442,835	1,442,835

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

For the three and nine months ended September 30, 2022 and 2021

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

9. Contributed surplus (continued)

(d) Share-based compensation expense

Total share-based compensation expense presented in the condensed consolidated interim statements of income (loss) and comprehensive income (loss) is as follows:

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
<i>(thousands of Canadian dollars)</i>				
Equity-settled awards:				
Stock options	177	240	760	1,054
Restricted share units	-	-	-	(26)
Warrants	(1,005)	78	-	89
Cash-settled awards:				
Deferred share units	(49)	(241)	99	426
Restricted share units	139	40	496	77
Total share-based compensation	(738)	117	1,355	1,620

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.

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 \$256 (2021 - \$39). The long-term portion of cash-settled share-based compensation liability is presented in other long-term liabilities \$1,175 (2021-\$333).

	Cash-settled RSUs	Cash-settled DSUs	Fair Value \$
Balance at January 1, 2022	837,824	2,083,096	372
Issued	11,237,110	2,803,125	1,212
Forfeited	94,228	-	(13)
Outstanding September 30, 2022	12,169,162	4,886,221	1,571

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

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10. Revenue

The Company's revenue is comprised of wholesale sales of products 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, 2022, the return liability for the estimate of future returns and price adjustments was \$nil (December 31, 2021 - \$242) and is included in accounts payable and accrued liabilities on the condensed consolidated interim statements of financial position.

	Three months ended		Nine months ended	
	September 30		September 30	
	2022	2021	2022	2021
			\$	\$
Gross wholesale revenue of flower	2,776	4,268	12,726	13,220
Gross wholesale revenue of extract	23,386	9,701	59,321	25,547
Gross wholesale revenue	26,162	13,969	72,047	38,767
Retail revenue	2,350	3,023	6,556	9,383
Gross revenue	28,512	16,992	78,603	48,150
Excise taxes	(10,190)	(3,623)	(25,074)	(9,715)
Net revenue	18,322	13,369	53,529	38,435

11. Finance costs

	Three months ended		Nine months ended	
	September 30		September 30	
	2022	2021	2022	2021
Cash finance costs				
Interest convertible debentures	-	285	407	855
Interest term loan and equipment loan debt	548	401	1,405	1,119
Interest leases	61	77	189	225
Interest other	-	6	-	66
	609	769	2,001	2,265
Non-cash finance costs				
Accretion convertible debentures	-	236	384	691
Accretion financing fees	28	33	79	88
	28	269	463	779
Total	637	1,038	2,464	3,044

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

For the three and nine months ended September 30, 2022 and 2021

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12. Selling, general and administration expenses

	Three months ended		Nine months ended	
	September 30		September 30	
	2022	2021	2022	2021
Salaries and wages	2,542	1,933	6,513	5,155
Office and general	1,469	1,150	3,902	4,163
Consulting fees	461	169	959	616
Professional fees	202	120	322	263
Travel and accommodation	161	180	507	372
Marketing and branding	733	245	2,322	465
Severance	46	118	349	344
Total	5,614	3,915	14,874	11,378

13. Earnings (Loss) 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 three months ended September 30, 2021 and nine months ended September 30, 2022, presented in the condensed consolidated interim statements of income (loss) and comprehensive income (loss) reported a net loss and comprehensive loss; and, as such, the applicable outstanding shares instruments are considered anti-dilutive.

The three months ended September 30, 2022 and nine months ended September 30, 2021 presented in the condensed consolidated interim statements of income (loss) and comprehensive income (loss) reported a net income and comprehensive income and, as such, there were 76,376,772 and 72,381,564 potentially dilutive instruments excluded from the computation of diluted net earnings per common share as they were 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, 2022 and 2021. All property, plant and equipment and intangible assets are located within Canada.

(c) Major customers

For the three months ended September 30, 2022, three customers represented approximately 96% of the Company's net wholesale revenue (2021 – three customers 92%). These customers were all governmental authorities, as is typical for the industry.

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)

14. Segmented information (continued)

For the nine months ended September 30, 2022, three customers represented approximately 93% of the Company's net wholesale revenue (2021 – three customers 90%). 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, 2022	Nine months ended September 30, 2021
	\$	\$
Accounts receivable	(4,276)	(5,757)
Other current assets	1,639	(2,401)
Biological assets	13,901	(15,128)
Inventory	(26,930)	4,714
Other long-term assets	(665)	(967)
Accounts payable and accrued liabilities	17,936	6,020
Total	1,605	(13,519)

	Nine months ended September 30, 2022	Nine months ended September 30, 2021
	\$	\$
Working capital change relating to operating activities	1,558	(13,297)
Working capital change relating to investing activities	47	(222)
Total	1,605	(13,519)

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:

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

For the three and nine months ended September 30, 2022 and 2021

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

15. Supplemental cash flow disclosures (continued)

		Nine months ended September 30, 2022	Nine months ended September 30, 2021
		Financing liabilities (i)	Financing liabilities (i)
		.	\$
Balance at January 1, 2022 and 2021	(ii)	49,900	43,191
Cash changes:			
Proceeds from authorized overdraft		277	122
Proceeds from term loans		38,090	9,868
Financing fees paid		(133)	(119)
Repayment of equipment loan		-	(68)
Repayment of lease liabilities		(862)	(449)
Repayment of convertible debentures		(12,000)	-
Repayment of term loans		(27,879)	(1,376)
Non-cash changes:			
Accretion financing charges		79	88
Accretion convertible debentures		384	691
Lease additions and non cash adjustments		857	667
		<u>48,713</u>	<u>52,615</u>

(i) Includes current and long-term portions.

(ii) 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, deposits included in other assets, accounts receivable, accounts payable and accrued liabilities, and long-term debt. Management estimates that the fair value of its cash, accounts receivable, and accounts payable and accrued liabilities approximates their carrying values as of September 30, 2022, due to the relatively short maturity periods of these instruments.

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.

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.

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

16. Financial instruments and risk management (continued)

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.

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	43,107	43,107	-	-	-	-	-
Lease liabilities	5,348	865	665	605	433	364	2,416
Loans and borrowings	57,133	10,633	4,641	4,641	4,486	4,434	28,298
Total	105,588	54,605	5,306	5,246	4,919	4,798	30,714

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, 2022, 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 \$60.

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.

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

17. Commitments and contingencies

Equipment purchases

The Company is committed to payments of \$201 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, 2022, the Company's total capital \$97.7 million (December 31, 2021 - \$98.9 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, 2022, the Company is in compliance with all covenants. As at September 30, 2022, the Company is not subject to externally imposed capital requirements.