

DECIBEL CANNABIS COMPANY INC.

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

**For the three and nine months ended September 30, 2023 and 2022
(In Canadian Dollars)**

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

As at September 30, 2023 and December 31, 2022

(Unaudited - In thousands of Canadian dollars)

	Notes	September 30, 2023	December 31, 2022
		\$	\$
Assets			
Current assets			
Cash		3,391	2,966
Accounts receivable	3	21,032	16,612
Other current assets	6	1,902	2,413
Biological assets	4	1,946	2,358
Inventory	5	46,479	45,424
		74,750	69,773
Property, plant and equipment		56,073	57,924
Right-of-use assets		5,931	4,620
Other long-term assets	6	3,246	3,941
Intangible assets		686	363
Goodwill		4,259	4,259
		144,945	140,880
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	15, 16	45,826	44,325
Current portion of lease liabilities		1,050	868
Current portion of long-term debt	7	8,748	8,687
Other current liabilities		3,590	-
		59,214	53,880
Long-term lease liabilities		4,538	3,793
Long-term debt	7	33,036	35,046
Other long-term liabilities	9, 16	950	950
		97,738	93,669
Shareholders' equity			
Share capital	8	54,078	53,533
Reserves	9	16,119	16,089
Deficit		(22,990)	(22,411)
		47,207	47,211
		144,945	140,880

Going concern (Note 1)

Commitments and contingencies (Note 17)

Approved on behalf of the board:

"Nadia Vattovaz"

Signed: Director

"Shawn Dym"

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, 2023 and 2022

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

		Three months ended		Nine months ended	
		September 30		September 30	
	Notes	2023	2022	2023	2022
Revenue					
Gross revenue		49,107	28,512	141,289	78,603
Excise taxes		(18,917)	(10,190)	(53,064)	(25,074)
Net revenue	10	30,190	18,322	88,225	53,529
Cost of goods sold		17,352	8,871	48,959	30,585
Gross profit before fair value adjustments		12,838	9,451	39,266	22,944
Unrealized gain on changes in fair value of biological assets	4	4,682	5,425	9,107	12,856
Change in fair value of biological assets realized through inventory sold		(4,792)	(3,182)	(17,820)	(15,516)
Gross profit		12,728	11,694	30,553	20,284
Selling, general and administration	12	10,270	5,614	25,266	14,874
Depreciation and amortization		834	895	2,518	2,714
Share-based compensation	9	493	(738)	1,064	1,355
		11,597	5,771	28,848	18,943
Income from operations		1,131	5,923	1,705	1,341
Non-operating items					
Finance costs	11	732	637	2,171	2,464
Foreign exchange loss (gain)		39	99	283	216
Loss on disposal of property, plant and equipment and right-of-use assets		-	81	-	81
Transaction costs		-	-	-	10
Other Income		(53)	(63)	(170)	(115)
		718	754	2,284	2,656
Income (loss) before income taxes		413	5,169	(579)	(1,315)
Current		-	-	-	-
Deferred		-	-	-	-
		-	-	-	-
Net income (loss) and comprehensive income (loss)		413	5,169	(579)	(1,315)
Income (loss) per share					
Basic	13	-	0.01	-	-
Diluted	13	-	0.01	-	-
Weighted average number of shares outstanding					
Basic	13	409,039,064	404,054,387	409,039,064	404,053,811
Diluted	13	472,318,208	480,431,159	409,039,064	404,053,811

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, 2023 and September 30, 2022

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

	Number of shares	Share capital	Reserves			Deficit	Total
			Warrants	Convertible debentures	Contributed surplus		
	(Note 8)	(Note 8)			(Note 9)		
	#	\$	\$	\$	\$	\$	\$
Balance, January 1, 2023	404,654,387	53,533	4,266	-	11,823	(22,411)	47,211
Exercise of restricted share units	337,500	60	-	-	(60)	-	-
Exercise of stock options	4,047,177	485	-	-	(129)	-	356
Share based compensation	-	-	-	-	219	-	219
Comprehensive (loss)	-	-	-	-	-	(579)	(579)
Balance, September 30, 2023	409,039,064	54,078	4,266	-	11,853	(22,990)	47,207

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

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 three and nine months ended September 30, 2023 and 2022

(Unaudited - In thousands of Canadian dollars)

		Three months ended		Nine months ended	
	Notes	September 30		September 30	
		2023	2022	2023	2022
Operating activities					
Net income (loss)		413	5,169	(579)	(1,315)
Depreciation and amortization		834	893	2,518	2,712
Non-cash finance costs	11, 15	169	884	490	1,321
Unrealized gain on changes in fair value of biological assets	4	(4,682)	(5,425)	(9,107)	(12,856)
Change in fair value of biological assets realized through inventory sold		4,792	3,182	17,820	15,516
Share-based compensation	9	493	(548)	1,064	1,355
Loss on disposal of property, plant and equipment and right-of-use assets		-	81	-	81
Changes in non-cash working capital	15	(82)	(625)	(7,032)	1,558
Cash provided by operating activities		1,937	3,611	5,174	8,372
Investing activities					
Purchase of property, plant and equipment		(79)	(1,329)	(1,029)	(3,426)
Purchase of intangible assets		(701)	-	(701)	-
Changes in non-cash working capital		-	47	-	47
Cash used in investing activities		(780)	(1,282)	(1,730)	(3,379)
Financing activities					
Proceeds from exercise of stock options	8	-	-	356	1
Proceeds from long-term debt	15	143	87	392	38,367
Repayment of long-term debt	15	(804)	(721)	(2,415)	(27,879)
Financing fees	15	-	-	-	(133)
Share issuance costs		-	-	-	(1)
Repayment of lease liabilities		(471)	(418)	(1,352)	(862)
Repayment of convertible debentures		-	-	-	(12,000)
Cash used in financing activities		(1,132)	(1,052)	(3,019)	(2,507)
Increase in cash		25	1,277	425	2,486
Cash, beginning of period		3,366	3,128	2,966	1,919
Cash, end of period		3,391	4,405	3,391	4,405

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, 2023 and 2022

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

1. Nature of operations and general information

(a) Nature of operations

On March 1, 2020, pursuant to a series of internal reorganization transactions, Westleaf Inc. 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 Company’s warrants trade on the TSX-V under the trading symbol “DB.WT.A”.

The condensed consolidated interim financial statements for the three and nine months ended September 30, 2023, 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, which received their licensing in August of 2017 and 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

(c) Going Concern

The condensed consolidated interim financial statements have been prepared based on accounting policies applicable to a going concern, which assumes 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, 2023, the Company generated a net loss of \$0.6 million, cash flows of \$5.2 million from operations and has working capital of \$15.5 million as of September 30, 2023, which is calculated as total current assets less total current liabilities.

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2023 and 2022

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

1. Nature of operations and general information (continued)

(c) Going Concern (continued)

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 our credit facility (“Credit Facility”) with Connect First Credit Union Ltd. (the “Lender”) 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 the Lender to amend the Credit Facility to ensure its 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.

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 Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board.

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, 2022. Accordingly, these financial statements should be read in conjunction with the annual consolidated financial statements as at and for the year ended December 31, 2022, as filed on SEDAR at www.sedarplus.ca.

The condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors of the Company on November 15, 2023.

(b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for biological assets and cash-settled share-based instruments which are measured at fair value.

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

For the three and nine months ended September 30, 2023 and 2022

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

2. Basis of presentation (continued)

(c) Functional currency and presentation of foreign currency

The functional currency of the Company and all its subsidiaries is the Canadian dollar. 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 implementation of these new accounting pronouncements did not have a significant impact on its accounting policies.

3. Accounts receivable

	September 30, 2023	December 31, 2022
Accounts receivable	20,881	16,360
Receiver general	151	252
Balance, end of period	21,032	16,612

4. Biological assets

	September 30, 2023	December 31, 2022
Balance, beginning of year	2,358	2,460
Unrealized gain on changes in fair value of biological assets	9,107	18,406
Capitalized costs during biological transformation	7,067	9,230
Transferred to inventory upon harvest	(16,586)	(27,738)
Balance, end of period	1,946	2,358

The Company measures its biological assets at their fair value less costs to sell and costs to complete. Fair value less costs to sell and costs to complete 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.

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

For the three and nine months ended September 30, 2023 and 2022

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

4. Biological assets (continued)

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

- Average 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.
- Average yield per 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 estimate and assumption and provides the dollar impact to the fair value of biological assets using a 10% increase/decrease.

	2023	2022	10% change 2023	10% change 2022
			\$	\$
Average selling price per gram	\$4.96	\$4.55	393,974	(94,443)
Stage of growth	46%	41%	268,811	(362,546)
Average yield per plant (grams)	50.02	40.46	268,811	(362,546)
Post-harvest cost per gram	\$0.58	\$0.25	40,343	(532,626)

The Company accretes fair value on a straight-line basis according to stage of growth. As a result, a cannabis plant that is 46% through its 16 weeks growing cycle would be ascribed approximately 46% of its harvest date expected fair value less remaining processing and selling costs.

5. Inventory

	September 30, 2023	December 31, 2022
Wholesale		
Raw materials	38,741	34,043
Work in process	590	4,771
Finished goods	5,959	5,840
Total wholesale	45,290	44,654
Retail		
Cannabis	1,117	699
Accessories	67	69
Merchandise	5	2
Total retail	1,189	770
Balance, end of period	46,479	45,424

For the three and nine months ended September 30, 2023, inventories have been written down by \$0.5 million and \$1.2 million (2022 - \$3.6 million) which is included in 'cost of sales' and 'changes in fair value of biological assets realized through inventory sold'. Of this amount, \$0.8 million pertained to a provision for aged inventory and \$0.4 million pertained to a write off of aged inventory.

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

For the three and nine months ended September 30, 2023 and 2022

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

6. Other Assets

	September 30, 2023	December 31, 2022
Prepaid expenses	1,005	1,659
Deposits	800	658
Sub-lease receivable	97	96
Other current assets	1,902	2,413
Deposits	3,155	3,777
Sub-lease receivable	91	164
Other long-term assets	3,246	3,941

A portion of the deposits balance as at September 30, 2023, 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, and 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. Long-term debt

Type of loan	Maturity	September 30, 2023	December 31, 2022
Connect First commercial mortgage loan	January 1, 2027	25,408	26,819
Connect First commercial mortgage loan	January 31, 2034	10,907	11,493
Authorized overdraft	On demand	5,984	6,011
Debt issuance costs		(515)	(590)
		41,784	43,733
Current		8,748	8,687
Long-term		33,036	35,046

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 which is comprised of \$40.5 million of commercial mortgage loans, a \$6.0 million authorized overdraft, and an accordion line of an additional \$7.5 million that is available subject to a Debt to EBITDA of less than 3.00:1.00. The Company's \$7.5 million accordion remains undrawn. As at September 30, 2023, the Company's Debt to EBITDA was 1.50:1.00.

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, a prime plus 1.00% interest rate on its overdraft facility, and a prime plus 2.00% interest rate on its accordion line.

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

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

For the three and nine months ended September 30, 2023 and 2022

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

7. Long-term debt (continued)

Financial covenants:

The February 1, 2022 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.

As at September 30, 2023, the debt service coverage ratio is 4.31:1.00.

(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 subordinated debt and facility appraisals, as presented on the condensed consolidated interim statements of financial position, calculated annually to be greater than 1.00:1.00.

The debt to equity covenant test commences December 31, 2023. The company is forecasting to be in compliance with this covenant when it commences as at December 31, 2023.

As at September 30, 2023 the debt to equity ratio was 1.05:1.00.

(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 condensed consolidated interim statements of financial position, calculated monthly on the last day of each month to fall below 1.25:1.00.

As at September 30, 2023, the current ratio was 1.26:1.00.

8. Share capital

Common shares issued and outstanding.

	Shares	Share capital
	#	\$
Balance, January 1, 2022	404,028,200	53,420
Exercise of stock options	24,522	112
Exercise of restricted share units	601,665	1
Balance, December 31, 2022	404,654,387	53,533
Exercise of stock options	4,047,177	485
Exercise of restricted share units	337,500	60
Balance, September 30, 2023	409,039,064	54,078

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

For the three and nine months ended September 30, 2023 and 2022

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

9. Contributed Surplus**Equity-settled share-based instruments**

(a) Warrants

	Financing warrants	Weighted average exercise price
	#	\$
Outstanding, January 1, 2022	34,246,154	0.591
Expired	(5,266,154)	1.709
Outstanding December 31, 2022 and September 30, 2023	28,980,000	0.388
Weighted average exercise price \$/share	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
Outstanding September 30, 2023	28,980,000	28,980,000	0.388

(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, 2022	39,808,768	0.27
Issued	3,471,294	0.14
Exercised	(24,522)	0.09
Forfeited	(1,231,518)	0.49
Expired	(1,279,200)	0.09
Outstanding, December 31, 2022	40,744,822	0.26
Exercised	(4,047,177)	0.09
Expired	(2,398,500)	0.26
Outstanding, September 30, 2023	34,299,145	0.27

The Company may issue up to \$60.4 million common shares under its combined stock option, restricted stock unit and deferred stock unit plans. The stock options exercised during the nine-month period September 30, 2023, had a stock and exercise price of \$0.09.

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)

9. Contributed Surplus (continued)

(b) Stock options (continued)

Expiry date	Number of options #	Number vested and exercisable #	Exercise price \$/share \$
June 14, 2024	13,794,046	13,794,046	0.47
December 31, 2024	10,287,804	10,287,804	0.09
January 1, 2026	4,246,001	2,830,667	0.17
January 1, 2026	2,500,000	1,666,667	0.34
January 1, 2027	3,471,294	1,157,098	0.14
Outstanding September 30, 2023	34,299,145	29,736,282	0.27

(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, 2022	1,444,500	0.18
Exercised	(601,665)	0.19
Outstanding, December 31, 2022	842,835	0.19
Exercised	(337,500)	0.18
Outstanding September 30, 2023	505,335	0.19

Grant date	RSUs outstanding #	RSUs vested, exercisable #
January 01, 2022	35,000	35,000
May 16, 2022	224,999	224,999
April 03, 2023	33,336	33,336
May 06, 2023	200,000	200,000
January 01, 2024	12,000	12,000
Outstanding September 30, 2023	505,335	505,335

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

For the three and nine months ended September 30, 2023 and 2022

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

9. Contributed Surplus (continued)**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 vest in three equal portions over three years, 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 \$1,017 (2022 - \$374). The long-term portion of cash-settled share-based compensation liability is presented in other long-term liabilities \$836 (2022 - \$836).

	Cash-settled RSUs	Cash-settled DSUs	Fair Value
	#	#	\$
Outstanding, January 1, 2022	837,824	2,083,096	372
Issued	11,237,110	2,803,125	1,404
Forfeited	(94,228)	-	(13)
Outstanding, December 31, 2022	11,980,706	4,886,221	1,763
Issued	1,377,354	-	1,124
Exercised	(899,006)	(341,197)	(93)
Forfeited	(298,413)	-	(17)
Outstanding September 30, 2023	12,160,641	4,545,024	2,776

Grant date	Number of Units	Number vested and exercisable
April 16, 2021	545,067	363,378
August 17, 2021	198,529	132,353
January 20, 2022	10,266,118	2,774,711
May 15, 2022	1,150,927	294,957
Outstanding September 30, 2023	12,160,641	3,565,399

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)

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		Nine months ended	
	September 30		September 30	
	2023	2022	2023	2022
<i>(thousands of Canadian dollars)</i>				
Equity-settled awards:				
Stock options	74	177	219	760
Warrants	-	(1,005)	-	-
Cash-settled awards:				
Deferred share units	137	(49)	284	99
Restricted share units	282	139	561	496
Total share-based compensation	493	(738)	1,064	1,355

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, 2023, the return liability for the estimate of future returns and price adjustments was \$71 (December 31, 2022 - \$91) 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	
	2023	2022	2023	2022
Gross Canadian recreational sales	46,753	26,162	134,028	72,047
International sales	500	-	2,266	-
Retail sales	1,854	2,350	4,995	6,556
Gross revenue	49,107	28,512	141,289	78,603
Excise taxes	(18,917)	(10,190)	(53,064)	(25,074)
Net revenue	30,190	18,322	88,225	53,529

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)

11. Finance costs

	Three months ended		Nine months ended	
	September 30		September 30	
	2023	2022	2023	2022
Cash finance costs				
Interest on convertible debentures	-	-	-	407
Interest on term loan and equipment loan debt	563	548	1,681	1,405
	563	548	1,681	1,812
Non-cash finance costs				
Accretion convertible debentures	-	-	-	384
Accretion financing fees	25	28	75	79
Interest on lease liabilities	144	61	415	189
	169	89	490	652
Total	732	637	2,171	2,464

12. Selling, general and administration expenses

	Note	Three months ended		Nine months ended	
		September 30		September 30	
		2023	2022	2023	2022
<i>(thousands of Canadian dollars)</i>					
Salaries and wages		2,924	2,542	8,591	6,513
Office and general		1,951	1,469	5,282	3,902
Consulting fees		776	461	2,970	959
Professional fees		258	202	1,303	322
Travel and accommodation		284	161	745	507
Marketing and branding		1,509	733	3,807	2,322
Severance		-	46	-	349
Litigation	17	2,573	-	2,573	-
Selling costs		(5)	-	(5)	-
Total selling, general and administration		10,270	5,614	25,266	14,874

13. Income (loss) per share

Net 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.

	Three months ended		Nine months ended	
	September 30		September 30	
	2023	2022	2023	2022
Weighted average number of shares used in basic income (loss) per share	409,039,064	404,054,387	409,039,064	404,053,811
Stock options	34,299,145	42,130,618	-	-
Warrants	28,979,999	34,246,154	-	-
Weighted average number of shares used in diluted income (loss) per share	472,318,208	480,431,159	409,039,064	404,053,811

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

For the three and nine months ended September 30, 2023 and 2022

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

13. Income (loss) per share (continued)

	Three months ended		Nine months ended	
	September 30		September 30	
	2023	2022	2023	2022
Net income (loss)	413	5,169	(579)	(1,315)
W.A common shares - basic	409,039,064	404,054,387	409,039,064	404,053,811
W.A common shares - diluted	472,318,208	480,431,159	409,039,064	404,053,811
Net income (loss) per common share - basic	-	0.01	-	-
Net income (loss) per common share - diluted	-	0.01	-	-

For the three months ended September 30, 2023 and 2022, as presented in the condensed consolidated interim statements of income (loss) and comprehensive income (loss) the Company reported a net income and comprehensive income; as such, 63,279,144 and 76,376,772 anti-dilutive instruments were excluded from the computation of diluted net earnings per common share.

For the nine months ended September 30, 2023 and 2022, the Company reported a net loss and comprehensive loss on the Interim Statements of Condensed Consolidated Income (Loss) and Comprehensive Income (Loss); and as such, the respective outstanding share 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 with the exception of international exports to Israel. For the three and nine months ended September 30, 2023, revenues generated were \$0.5 million and \$2.3 million respectively (2022 - \$nil). All property, plant and equipment and intangible assets are located within Canada.

(c) Major customers

For the three months ended September 30, 2023, three customers represented approximately 92.4% of the Company's net wholesale revenue (2022 – three customers 90.8%). These customers were all governmental authorities, as is typical for the industry.

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15. Supplemental cash flow disclosures

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

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Accounts receivable	(4,470)	(1,422)	(4,420)	(4,276)
Other current assets	89	1,850	512	1,639
Biological assets	4,156	4,696	10,812	13,901
Inventory	(8,072)	(12,395)	(18,876)	(26,930)
Other long-term assets	(118)	31	694	(665)
Accounts payable and accrued liabilities	4,743	6,662	656	17,936
Other current liabilities	3,590	-	3,590	-
Total	(82)	(578)	(7,032)	1,605

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, 2023	Nine months ended September 30, 2022
	(i)	(i)
Balance, January 1, 2023 and 2022 ⁽ⁱⁱ⁾	48,394	49,900
Cash changes:		
Proceeds from term loans and authorized overdraft	392	38,367
Financing fees paid	-	(133)
Repayment of lease liabilities	(1,352)	(862)
Repayment of convertible debentures	-	(12,000)
Repayments of term loans and authorized overdraft	(2,415)	(27,879)
Non-cash changes:		
Accretion financing charges	75	79
Accretion convertible debentures	-	384
Lease additions and non-cash adjustments	2,278	857
Total	47,372	48,713

(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

Fair value of financial instruments

The Company's financial instruments consist of cash and deposits included in other assets, accounts receivable (except amounts receivable from the Receiver General), accounts payable and accrued liabilities, and long-term debt. Management estimates the fair value and carrying value of its cash, accounts receivable (except amounts receivable from the Receiver General) accounts payable and accrued liabilities as at September 30, 2023, due to the relatively short maturity periods of these instruments.

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

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16. Financial instruments and risk management (continued)

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.

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 and accounts receivable. 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	45,826	45,826	-	-	-	-	-
Lease liabilities ⁽ⁱ⁾	7,721	1,551	1,435	1,097	1,028	544	2,066
Loans and borrowings ⁽ⁱⁱ⁾	52,544	10,625	4,640	4,486	4,434	4,434	23,925
Total	106,091	58,002	6,075	5,583	5,462	4,978	25,991

(i) Includes the interest portion of lease obligations.

(ii) Loans and borrowing balances are based on the credit facility in place at September 30, 2023. Included are the estimated interest and principal repayments, based on current amounts outstanding and current interest rates at September 30, 2023. Both are variable in nature.

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2023 and 2022

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

16. Financial instruments and risk management (continued)

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, 2023, 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.

17. Commitments and contingencies

Legal Claims

From time to time, the Company is involved in various claims and legal actions which occur during ordinary course of operations. In connection with the arbitration with UCG Canada LP, UCG was granted a final award consisting of a termination fee, and solicitor client cost and interest for a total of \$2.6 million. The company has recognized all costs associated with this award in September 2023.

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, 2023, the Company's total capital \$96.0 million (December 31, 2022 - \$97.3 million) consisting of current and long-term debt, as well as share capital.

As disclosed in Note 7, the Company's debt financing is subject to financial covenants. As at September 30, 2023, the Company is in compliance with all covenants. As at September 30, 2023, the Company is not subject to externally imposed capital requirements.