

Decibel Announces Third Quarter Results with \$30.2 Million of Net Revenue, \$6.7 Million of Adjusted EBITDA, and Positive Free Cash Flow

CALGARY, AB, Nov. 16, 2023 /CNW/ - Decibel Cannabis Company Inc. (the "Company" or "Decibel") (TSXV: DB) (OTCQB: DBCCF), a market leader in premium cannabis and extract manufactured products, is pleased to announce its interim financial results for the three and nine month periods ending September 30, 2023.

"With continued success in our ready to consume product strategy, our recent launches including General Admission Blinker, General Admission edibles, and our new brand Vox Popz crushable pre-rolls are expected to further cement our ready to consume position and meaningful growth in the coming year." said Paul Wilson, CEO of Decibel. "Alongside these top line growth initiatives, we are pleased to have concluded the expansion of our manufacturing capacity, which will expand gross margin and support our new wave of product launches."

Third Quarter Highlights

- **National Market Share**⁽²⁾ of 7.5% in Q3 2023 which placed Decibel as the 2nd largest licensed producer in Canada by market share.
- **Net Revenue** of \$30.2 million in the third quarter of 2023, with a sequential decline of 2% over the prior quarter, and year over year growth of 65%. Net revenue growth was driven by growth in demand for vapes and infused products, increased manufacturing capacity, international sales⁽⁴⁾, and the launch of the Company's new brand Vox and General Admission Edibles. International sales were impacted by \$1.4 million due to third party lab delays which have since been resolved with Q3 volumes having been sold in Q4 2023.
- **Gross Margin Before Fair Value Adjustments** was 43% in the third quarter of 2023, compared to 42% in the prior quarter and 52% in the third quarter of 2022. The third quarter was impacted by a \$368 thousand write off of aged product and increased temporary labour of \$566 thousand to meet market demand. The Company completed certain operational investments in November, including the expansion of its manufacturing capacity, which at current production and sales is anticipated to realize cash-flow savings of approximately \$10 million at full year production rate.
- **Adjusted EBITDA**⁽¹⁾ of \$6.7 million in the third quarter of 2023, with a sequential decline of 8% over the prior quarter and year over year growth of 57%.
- **Positive Free Cash Flow**⁽¹⁾ of \$1.2 million in the third quarter of 2023, with a sequential increase of 152% over the prior quarter and a year over year decline of 50%.
- **Adjusted Net Income**⁽¹⁾ of \$523 thousand in the third quarter of 2023, with a sequential decline of 88% over the prior quarter and a year over year decline of 82%. Adjusted Net Income was negatively impacted by a litigation expense of \$3 million related to arbitration that is now concluded.
- **Adjusted Earnings Per Share ("Adjusted EPS")**⁽³⁾: of nil in the third quarter, a decrease of \$0.01 from the prior quarter and a year over year decrease of \$0.01.

Year to Date Highlights

- Net Revenue of \$88.2 million, an increase of 65% over 2022.
- Adjusted EBITDA⁽¹⁾ of \$20.8 million, an increase of 109% over 2022.
- Positive Free Cash Flow⁽¹⁾ of \$3.4 million, a decrease of 31% over 2022.
- Adjusted EPS⁽³⁾ of \$0.02, an increase of \$0.02 over 2022.

Notes:

- 1 Non-GAAP financial measure. Refer to "Cautionary Statement Regarding Certain Non-GAAP Measures" for further details.
- 2 iFyre Retail Analytics, Licensed Producer Sales over Time Nationally
- 3 Non-GAAP ratio. Refer to "Cautionary Statement Regarding Certain Non-GAAP Measures" for further details.
- 4 Supplementary financial measure. Refer to "Cautionary Statement Regarding Certain Non-GAAP Measures" for further details.

Summary Highlights¹

	Three months ended		Nine months ended	
	September 30		September 30	
	2023	2022	2023	2022
<i>(Thousands of Canadian dollars, except where noted)</i>				
Gross Canadian recreational sales ^{1,2}	\$46,753	\$26,162	\$134,028	\$72,047
Net Canadian recreational sales ^{1,2}	\$27,836	\$15,972	\$80,964	\$46,973
International sales ²	\$500	-	\$2,266	-
Retail sales ^{1,2}	\$1,854	\$2,350	\$4,995	\$6,556
Number of retail stores	6	6	6	6
Total				
Gross revenue	\$49,107	\$28,512	\$141,289	\$78,603
Net revenue	\$30,190	\$18,322	\$88,225	\$53,529
Gross profit before fair value adjustments	\$12,838	\$9,451	\$39,266	\$22,944
Gross margin before fair value adjustments	43 %	52 %	45 %	43 %
Adjusted EBITDA ³	\$6,702	\$4,259	\$20,767	\$9,948
Net income (loss) and comprehensive income (loss)	\$413	\$5,169	(\$579)	(\$1,315)
Adjusted net income ³	\$523	\$2,926	\$8,134	\$1,345
Cash flow from operations	\$1,937	\$3,611	\$5,174	\$8,372
Free cash flow ³	\$1,157	\$2,329	\$3,444	\$4,993
Per Share Metrics				
Income (loss) per share	-	\$0.01	-	-
Adjusted EPS ⁴	-	-	\$0.02	-

¹ In the table above, wholesale inventory transferred to the retail stores and subsequently sold of \$802 thousand and \$2.2 million for the three and six month periods, has been eliminated from retail sales and attributed to gross Canadian recreational sales and net Canadian recreational sales to provide a more accurate depiction of business performance.

² Supplementary financial measure. Refer to "Cautionary Statement Regarding Certain Non-GAAP Measures" for further details.

³ Non-GAAP financial measure. Refer to "Cautionary Statement Regarding Certain Non-GAAP Measures" for further details.

⁴ Non-GAAP ratio. Refer to "Cautionary Statement Regarding Certain Non-GAAP Measures" for further details.

Decibel's interim financial statements for the three and nine month periods ending September 30, 2023 ("Financial Statements") and related Management's Discussion & Analysis for three and nine month periods ending September 30, 2023, are available under the Company's profile at www.sedarplus.ca.

As of September 30, 2023, Decibel was in compliance with all of its financial covenants under its credit facilities and expects to remain in compliance for the remainder of its twelve-month forecast period.

About Decibel

Decibel is a consumer-focused cannabis company focused on delivering products that delight customers through a commitment to robust innovation and product quality. Leading brands General Admission, Qwest, and Vox are among its portfolio sold both across Canada and beginning to extend towards new countries to create a global footprint. Decibel operates a processing and manufacturing facility in Calgary, Alberta, and two cultivation facilities in Creston, British Columbia, and Battleford, Saskatchewan.

Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

Cautionary Statement Regarding Certain Non-GAAP Measures

This press release contains certain financial performance measures that are "specified financial measures" (as such term is defined in National Instrument 52-112 – Non-GAAP and Other Financial Measures Disclosure) and are not recognized or defined and do not have a standardized meaning under IFRS. As a result, this data may not be comparable to data presented by other licensed producers and cannabis companies. For an explanation of these measures to related comparable financial information presented in the Financial Statements prepared in accordance with IFRS, refer to the discussion below. The Company believes that these specified financial measures are useful indicators of operating performance and are specifically used by management to assess the financial and operational performance of the Company. Accordingly, these specified financial measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Non-GAAP Financial Measures

Adjusted EBITDA is a non-GAAP financial measure that is intended to provide a proxy for the Company's operating cash flow and is widely used by industry analysts to compare Decibel to its competitors and derive expectations of future financial performance of the Company. Adjusted EBITDA increases comparability between comparative companies by eliminating variability resulting from differences in capital structures, management decisions related to resource allocation, and the impact of fair value adjustments on biological assets, inventory, and financial instruments, which may be volatile on a period-to-period basis. Adjusted EBITDA is calculated as net loss and comprehensive loss excluding unrealized gain on changes in fair value of biological assets, change in fair value of biological assets realized through inventory sold, depreciation and amortization expense, share-based compensation, other income, finance costs, foreign exchange loss, non-cash production costs and severance payments. Non-cash production costs relate to amortization expense allocations included in production costs. This non-GAAP financial measure should be considered together with other financial information prepared in accordance with IFRS to enable investors to evaluate the Decibel's operating results, underlying performance and prospects in a manner similar to Decibel's management.

	Three months ended		Nine months ended	
	September 30		September 30	
	2023	2022	2023	2022
<i>(thousands of Canadian dollars)</i>				
Net income (loss)	413	5,169	(579)	(1,315)
Unrealized gain on changes in fair value of biological assets	(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
Depreciation and amortization	834	895	2,518	2,714
Share-based compensation	493	(738)	1,064	1,355
Other (income)	(53)	(63)	(170)	(115)
Transaction costs	-	-	-	10
Finance costs	732	637	2,171	2,464
Foreign exchange loss	39	99	283	216
Loss on disposal of property, plant, and equipment	-	81	-	81
Non-cash cost of goods sold	1,177	376	3,810	1,284
Other adjustments	2,957	46	2,957	594
Adjusted EBITDA	6,702	4,259	20,767	9,948

Adjusted net income is a non-GAAP financial measure that is calculated as net loss and comprehensive loss excluding unrealized gain on changes in fair value of biological assets and change in fair value of biological assets realized through inventory sold. This non-GAAP financial measure is intended to provide a proxy for the Company's net income and comprehensive income and is used to compare Decibel to its competitors and derive expectations of future financial performance of the Company and should be considered together with other financial information prepared in accordance with IFRS to enable investors to evaluate the Decibel's operating results, underlying performance and prospects in a manner similar to Decibel's management.

	Three months ended		Nine months ended	
	September 30		September 30	
	2023	2022	2023	2022
<i>(thousands of Canadian dollars)</i>				
Net income (loss) and comprehensive income (loss)	413	5,169	(579)	(1,315)
Unrealized gain on changes in fair value of biological assets	(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
Adjusted net income	523	2,926	8,134	1,345
Weighted average number of shares outstanding	472,318,208	480,431,159	409,039,064	404,053,811
Adjusted EPS	-	\$0.01	\$0.02	-

Free cash flow is a non-GAAP financial measure that is used to measure Decibel's ability to generate value and grow the Company's business. Free cash flow is calculated as cash flow from operations less cash used in investing activities. This non-GAAP financial measure should be considered together with other financial information prepared in accordance with IFRS to enable investors to evaluate the Decibel's operating results, underlying performance and prospects in a manner similar to Decibel's management.

	Three months ended		Nine months ended	
	September 30		September 30	
	2023	2022	2023	2022
<i>(thousands of Canadian dollars)</i>				
Cash provided by operating activities	1,937	3,611	5,174	8,372
Cash used in investing activities	(780)	(1,282)	(1,730)	(3,379)
Free cash flow	1,157	2,329	3,444	4,993

Non-GAAP Ratios

Adjusted EPS is a non-GAAP ratio that is intended to provide a proxy for the Company's net income and comprehensive income and is used to compare Decibel to its competitors and derive expectations of future financial performance of the Company. This measure increases comparability between comparative companies by eliminating variability resulting from differences in management assumptions related to the impact of fair value adjustments on biological assets, which may be volatile on a period-to-period basis. Adjusted EPS is calculated as net loss and comprehensive loss excluding unrealized gain on changes in fair value of biological assets and change in fair value of biological assets realized through inventory sold, divided by the weighted average common shares outstanding. This non-GAAP ratio should be considered together with other financial information prepared in accordance with IFRS to enable investors to

evaluate Decibel's operating results, underlying performance and prospects in a manner similar to Decibel's management.

Supplementary Financial Measures

Retail sales is a supplementary financial measure that is intended to provide a more accurate depiction of the revenue earned by the Company's retail operations. Inventory transferred directly from the Company's wholesale operations to the Company's retail operations is removed from retail revenue as presented in the Financial Statements.

International sales is a supplementary financial measure intended to provide a more accurate depiction of international sales earned by the Company's wholesale operations.

Gross Canadian recreational sales is a supplementary financial measure intended to provide a more accurate depiction of gross revenue earned by the Company's wholesale operations. Inventory transferred directly from the Company's wholesale operations to the Company's retail operations is added to gross Canadian recreational sales as found in the Financial Statements to arrive at gross Canadian recreational sales.

Net Canadian Recreational Sales is a supplementary financial measure intended to provide a more accurate depiction of net revenue earned by the Company's wholesale operations. Inventory transferred directly from the Company's wholesale operations to the Company's retail operations is added to net Canadian recreational sales as found in the Financial Statements to arrive at net Canadian recreational sales.

Forward Looking Information

This news release contains "forward-looking information" and "forward-looking statements" (collectively, "forward-looking statements") within the meaning of the applicable Canadian securities legislation. All statements, other than statements of historical fact, are forward-looking statements and are based on expectations, estimates and projections as at the date of this news release. Any statement that involves discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions, future events or performance (often but not always using phrases such as "expects", or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "budget", "scheduled", "forecasts", "estimates", "believes" or "intends" or variations of such words and phrases or stating that certain actions, events or results "may" or "could", "would", "might" or "will" be taken to occur or be achieved) are not statements of historical fact and may be forward-looking statements.

In this news release, forward-looking statements relate to, among other things: Decibel's focus, strategy, priorities and plans; the anticipated benefits to be derived from (i) the completion of its capacity expansion and the estimated \$10 million in annual savings derived therefrom (ii) the Company's recent product launches and its expectations that they will contribute to meaningful growth in the coming year; (iii) the expansion of the Company's manufacturing facility, including its expectations that it will expand the Company's gross margin, support its new wave of product launches and reduce its increased temporary labour expense; the Company's expectation that it will remain in compliance with all of its financial covenants under its credit facilities for the remainder of its twelve-month forecast period and its other business plans and expectations. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements and information contained in this news release. Except as required by law, the Company assumes no obligation to update the forward-looking statements of beliefs, opinions, projections, or other factors, should they change, except as required by law.

Forward-looking statements and FOFI (as defined herein) are necessarily based upon a number of estimates and assumptions that, while considered reasonable, are subject to known and unknown risks, uncertainties, and other factors which may cause the actual results and future events to differ materially from those expressed or implied by such forward-looking statements. Such factors include, but are not limited to: risks relating to delays, regulatory changes and impacts, capital requirements, construction impacts, the ability to obtain and maintain licences to retail cannabis products; review of the Company's production facilities by Health Canada and maintenance of licences (including any amendments thereto) from Health Canada in respect thereof; future legislative and regulatory developments involving cannabis; inability to access sufficient capital from internal and external sources, and/or inability to access sufficient capital on favourable terms; the labour market generally and the ability to access, hire and retain employees; general business, economic, competitive, political and social uncertainties; the risk that the Company may not be able to meet consumer demand; the risk that the Company's new product launches may not contribute to meaningful growth in the coming year; the risk that the expansion of the Company's manufacturing facility may not expand the Company's gross margin, support its new wave of product launches or reduce its increased temporary labour expense; the risk that Decibel may not remain in compliance with its financial covenants for the remainder of its twelve-month forecast period; and the delay or failure to receive board, regulatory or other approvals, including any approvals of the TSX Venture Exchange, as applicable.

With respect to forward-looking statements and FOFI contained in this press release, Decibel has made assumptions regarding, but not limited to: demand for Decibel's products; Decibel's ability to enter new markets and industry verticals; Decibel's ability to attract, develop and retain key personnel; Decibel's ability to raise additional capital as and when required; the impact of competition; the changes and trends in Decibel's industry or the global economy; the Company's ability to generate sufficient cash flow from operations and obtain financing, if needed, on acceptable terms or at all; the general economic, financial market, regulatory and political conditions in which the Company operates; the ability of the Company to ship its products and maintain supply chain stability; consumer interest in the Company's products; anticipated and unanticipated costs; government regulation of the Company's activities and products; the timely receipt of any required regulatory approvals; the Company's ability to conduct operations in a safe, efficient and effective manner; the Company's construction plans and timeframe for completion of such plans; and the changes in laws, rules, regulations, and global standards.

Any financial outlook or future oriented financial information (in each case "FOFI") contained in this news release regarding prospective financial position, including, but not limited to: the anticipated benefits to be derived from the expansion of the Company's manufacturing facility, including its expectations that it will expand the Company's gross margin and reduce its increased temporary labour expense; and Decibel's expectations that it will remain in compliance with its financial covenants for the remainder of its twelve-month forecast period, is based on reasonable assumptions about future events, including those described above, based on an assessment by management of the relevant information that is currently available. The actual results will likely vary from the amounts set forth herein and such variations may be material.

Readers are cautioned that the foregoing list of assumptions and risk factors is not exhaustive. The forward-looking statements and FOFI contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements and FOFI included in this news release are made as of the date hereof and Decibel does not undertake any obligation to publicly update such forward-looking statements and FOFI to reflect new information, subsequent events or otherwise unless so required by applicable securities laws.

Market, Independent Third Party and Industry Data

Certain market, independent third party and industry data contained in this news release is based upon information from government or other independent industry publications and reports or based on estimates derived from such publications and reports. Government and industry publications and reports generally indicate that they have obtained their information from sources believed to be reliable, but Decibel has not conducted its own independent verification of such information. This news release also includes certain data derived from independent third parties. While Decibel believes this data to be reliable, market and industry data is subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. Decibel has not independently verified any of the data from independent third party sources referred to in this news release or ascertained the underlying assumptions relied upon by such sources.

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