

# **DECIBEL CANNABIS COMPANY INC.**

**Management's Discussion and Analysis**

**September 30, 2024**

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Decibel Cannabis Company Inc. and its subsidiaries (the "Company" or "Decibel") is dated as of November 20, 2024.

This MD&A should be read in conjunction with the Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2024, and 2023, inclusive of the accompanying financial statements notes (the "Consolidated Interim Financial Statements"), all of which were prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". Readers should also refer to the "Forward-looking information" legal advisory and "Cautionary Statement Regarding Certain Non-GAAP Measures" cautionary statement at the end of this MD&A.

Certain financial terms and measures contained in this MD&A are "specified financial measures" (as such term is defined in National Instrument 52-112 - *Non-GAAP and Other Financial Measures Disclosure ("NI 52-112")*). The specified financial measures referred to in this MD&A are comprised of "Non-GAAP financial measures", "Non-GAAP financial ratios", "capital management measures" and "supplementary financial measure" (as such terms are defined in NI 52-112). These measures are defined, qualified, and where required, reconciled with the nearest GAAP measure in the "Non-GAAP and Other Financial Measures" section of this MD&A.

The non-GAAP financial measures and non-GAAP ratios used herein do not have a standardized meaning prescribed by GAAP. Accordingly, the Company's use of these terms may not be comparable to similarly defined measures presented by other companies. Investors are cautioned that the non-GAAP financial measures and the non-GAAP ratios should not be considered in isolation nor as an alternative to net income or other financial information determined in accordance with GAAP, as an indication of the Company's performance.

All financial amounts and measures are expressed in Canadian dollars unless otherwise indicated.

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

## **Company Overview**

Decibel is a vertically integrated cannabis company with two licensed cultivation facilities and a licensed manufacturing facility. Decibel additionally acquired a third licensed cultivation facility upon its acquisition of AgMedica (as defined herein), completed on October 28, 2024. Refer to *Company Overview – Subsequent Events*. 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".

### Description of the Business and Corporate Strategy

Decibel's strategy is to build a cannabis company, focused on ready to consume cannabis products which include vapes, cannabis infused pre-rolls, dried flower and pre-rolls, edibles, and other value add products. Two components of this strategy, among others, are:

- i) cannabis cultivation, processing, and sale of cannabis flower products; and
- ii) extraction, processing, and manufacturing of a variety of cannabis derivative products.

In January 2024, the Israeli government issued a notification naming Canadian cannabis companies, including Decibel, indicating the launch of an "anti-dumping" investigation in respect of Canadian cannabis exports to Israel (the "Anti-Dumping Investigation"). The Company was named in the investigation and is participating in the investigation, which is voluntary. A finding of "dumping" under international trade law could result in the imposition of a dumping duty on Israeli importers of Canadian cannabis exports by companies whose pricing practices are determined to violate anti-dumping laws. See "Risk Factors" in the Company's annual management's discussion and analysis for the year ended December 31, 2023 (the "Annual MD&A").

### *Cannabis Cultivation*

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

The Company has a second cannabis production facility with 80,000 square feet of indoor cultivation, packaging and processing space, located in Battleford, Saskatchewan (the “Thunderchild Cultivation Facility”). On January 29, 2021, Decibel’s wholly owned subsidiary, dB Thunderchild Cultivation LP, which owns and operates the Thunderchild Cultivation Facility, received a cultivation license from Health Canada to grow, harvest, trim and store cannabis, becoming a licensed producer. Initial planting and activation of all 20 rooms at the Thunderchild Cultivation Facility was completed at the end of July 2021 and run-rate harvests were achieved in October 2021. To reinforce the Company’s commitment to quality products, the Company accelerated the implementation of the planned infrastructure optimization of the integrated humidification system at its Thunderchild Cultivation Facility, which was complete in Q3 2022. On June 29, 2022, the Thunderchild Cultivation Facility received its CUMCS Equivalency IMC-G.A.P. certification to support the Company’s international expansion. The first export to Israel occurred in Q4 2022.

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

The Company has entered into supply agreements for flower products with each of the Alberta Gaming, Liquor and Cannabis Commission (the “AGLC”), the Ontario Cannabis Retail Association, the British Columbia Liquor Distribution Board, the Manitoba Liquor & Lotteries Corporation, and has also agreed to supply Cannabis Products to the Prince Edward Island Cannabis Management Corporation and Cannabis New Brunswick. The Company is registered as a cannabis supplier in Saskatchewan.

Decibel has four dried cannabis brands, two positioned as premium brands, Qwest, and Qwest Reserve, and two positioned as core-segment and value-segment brands, Blendcraft by Qwest and General Admission.

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

Decibel has a large-scale cannabis extraction, processing, and manufacturing facility in Calgary, Alberta (the “**Plant**”). The Plant is a 60,000 square foot facility with approximately 24,000 square feet of Health Canada licensed space. On July 13, 2020, the Company received a sales amendment from Health Canada for the ability to manufacture and sell dried cannabis, cannabis extracts, and edible cannabis as finished cannabis products to provincial wholesalers and retailers. On March 14, 2022, Decibel announced the completion of the construction of Phase 1 of its processing hub expansion at the Plant, received its Health Canada license on May 2, 2022. The Phase 1 area includes newly automated processing and packaging lines for infused pre-roll products, packaging automation, and labeling automation, accompanied by significantly reduced labour and logistics costs.

Decibel engages in processing, manufacturing, and packaging activities at the Plant. Currently, the Company sells vape cartridges, cannabis infused products, pre-rolls, and cannabis extracts (also known as concentrates) from the Plant.

The Company has entered into supply agreements for derivative products with each of the AGLC, the Ontario Cannabis Retail Association, the British Columbia Liquor Distribution Board, the Manitoba Liquor & Lotteries Corporation and Cannabis New Brunswick. The Company is registered as a cannabis supplier in Saskatchewan.

Decibel has three cannabis derivative product brands, Pressed by Qwest, General Admission, and Vox.

#### *Discontinued Retail Operations and Location*

During the period ending June 30, 2024, Decibel owned and operated, through a wholly owned subsidiary, six Prairie Records cannabis retail stores in Saskatchewan and Alberta (“**Prairie Records**”). There were three Prairie Records stores located in Saskatchewan, with two stores located in Saskatoon and one in Warman. Prairie Records also operated an e-commerce cannabis platform servicing the Province of Saskatchewan. There were three Prairie Records stores in Alberta, with two stores located in Calgary and one located in Edmonton.

On April 10, 2024, the Company completed its sale of the Company’s Prairie Records Retail assets to Fire and Flower Inc., a wholly owned subsidiary of 2759054 Ontario Inc. d.b.a. FIKA (the “Prairie Records Retail Sale”).

#### *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 months ended September 30, 2024, the Company generated a net loss of \$3.8 million (2023 - net loss of \$0.6 million), cash flows from operating activities of \$3.8 million (2023 - \$4.8 million) and has net current assets of \$14.4 million (2023 - \$14.8 million). The Company generated Free Cash Flow of \$1.8 million (2023 - \$1.0 million), during the three months ended September 30, 2024, indicating a positive trend towards reducing uncertainty surrounding the Company's ability to remain a going concern. Free Cash Flow is a non-GAAP financial measure. Refer to “Cautionary Statement Regarding Certain Non-GAAP Measures” in this MD&A for further details.

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 the Company will raise these necessary funds from operations or financings.

The Company expects to comply with the financial covenants applicable to its credit facility (the “**Credit Facility**”) with Connect First Credit Union Ltd. (the “**Lender**”) for at least the next twelve months. 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 the Company will be successful in negotiating such amendments. See “Risk Factors” in the Annual MD&A.

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

#### *Subsequent Events*

On October 28, 2024, the Company completed the acquisition of AgMedica BioScience Ltd. (“AgMedica”). AgMedica was acquired by the Company from Callisto pursuant to an assignment agreement entered into with Callisto Capital Corp. (“Callisto”) whereby Callisto assigned all of its rights and obligations pursuant to a subscription agreement dated October 28, 2024 between, inter alia, Callisto, Atlas Global Brands Inc. (“Atlas”) and AgMedica, in connection with an Approval and Reverse Vesting Order granted pursuant to Atlas' Companies' Creditors Arrangement Act process involving Atlas and its subsidiaries (including AgMedica) in exchange for a \$6.3 million unsecured convertible debenture (the “Convertible Debenture”) issued to Callisto. In connection with the transaction Decibel also acquired GreenSeal Nursery, Ltd., a licensed nursery that holds and maintains certain cannabis genetics.

AgMedica is a licensed producer specializing in international distribution to seven different countries. In connection with the Acquisition of AgMedica, AgMedica entered into a 5-year industrial lease agreement for the AgMedica EU GMP cannabis cultivation and manufacturing facility located in Chatham, Ontario.

The Convertible Debenture is convertible into Common Shares of the Company at a conversion price of \$0.055 per Common Share. The conversion of the Convertible Debenture into Common Shares of the Company is subject to the following conditions:

- Receipt of final approval from the TSX-V.
- If applicable, approval from the disinterested shareholders of the Company to approve Callisto as a “Control Person” as defined in, and in accordance with the rules and policies of the TSX-V. This shareholder approval, if required, is anticipated to be sought at the Company's annual and special meeting scheduled for December 10, 2024 (the “2024 Shareholder Meeting”).

In the event that disinterested shareholder approval of the shareholders of the Company is required, and is not obtained at the 2024 Shareholder Meeting, the Convertible Debenture will not convert into Common Shares, will begin accruing interest at a rate of 15% per annum, and the principal amount plus interest accrued thereon will be repayable on April 28, 2025.

On October 28, 2024 and October 30, 2024, the Company announced its intention to complete a non-brokered private placement of up to 58,333,333 Common Shares at a price of \$0.06 per Common Share, for gross proceeds of up to \$3,500,000 (the “Offering”). The proceeds from the Offering are expected to be used for general working capital purposes and to enhance the Company’s ability to effectively integrate AgMedica and its operations into the Company’s overall business.

On November 4, 2024, the Company announced that it had completed a first closing of the Offering. Under the first closing, Decibel issued 33,503,864 Common Shares for gross proceeds of approximately \$2,010,232. No finders’ fees were paid in connection with the first closing of the Offering. Certain directors and officers of the Company subscribed for an aggregate of 18,626,728 Common Shares in the first closing of the Offering, representing approximately 55.6% of the number of Common Shares sold in the first closing.

## Quarterly Financial Information

The following is a summary of select financial information of the Company for the periods indicated.

### Quarterly Highlights

	Three months ended		Nine months ended	
	September 30		September 30	
	2024	2023	2024	2023
<i>(thousands of Canadian dollars, except where noted)</i>				
Gross Canadian recreational sales <sup>1</sup>	\$36,587	\$45,959	\$102,534	\$131,812
Net Canadian recreational sales <sup>1</sup>	\$23,800	\$27,042	\$66,524	\$78,748
International sales <sup>1</sup>	\$309	\$500	\$701	\$2,266
<b>Total</b>				
Gross revenue	\$36,896	\$46,459	\$103,235	\$134,078
Net revenue	\$24,109	\$27,542	\$67,225	\$81,014
Gross profit before fair value adjustments	\$12,716	\$11,983	\$32,031	\$36,940
Gross margin before fair value adjustments	53%	44%	48%	46%
Adjusted EBITDA <sup>2</sup>	\$5,147	\$6,475	\$12,673	\$20,122
Net income (loss) and comprehensive income (loss)	(\$585)	\$413	(\$3,796)	(\$579)
Adjusted net income (loss) <sup>2</sup>	\$2,058	\$522	(\$814)	\$8,134
Cash flow from operations	\$1,906	\$1,793	\$3,766	\$4,758
Free cash flow <sup>2</sup>	\$1,773	\$1,013	\$3,012	\$3,028
<b>Per Share Metrics</b>				
Income (loss) per share	-	-	-	-
Adjusted EPS <sup>3</sup>	\$0.01	-	-	\$0.02

<sup>1</sup> Supplementary financial measure. Refer to “Cautionary Statement Regarding Certain Non-GAAP Measures” in this MD&A for further details.

<sup>2</sup> Non-GAAP financial measure. Refer to “Cautionary Statement Regarding Certain Non-GAAP Measures” in this MD&A for further details.

<sup>3</sup> Non-GAAP ratio. Refer to “Cautionary Statement Regarding Certain Non-GAAP Measures” in this MD&A for further details.

- Net revenue for the three and nine months ended September 30, 2024, was \$24.1 million and 67.2 million, respectively, a decrease of 12% and 17% over the comparative periods. Net revenue decrease was driven by increased competition in the infused pre-roll segment, vape consumers switching towards large format 510 cartridges and disposables, and the halting of exports to Israel as the Company transitioned to a new distribution partner. This was partially offset by exports to new partners in the United Kingdom and Australia.
- Gross profit before fair value adjustments for the three and nine months ended September 30, 2024, was \$12.7 million and \$32.0 million, respectively, an increase of 6% and a decrease of 13% over the comparative periods. The decrease was primarily driven by a decline in net Canadian recreational sales and international sales. Gross margin before fair value adjustments was 53% in the third quarter of 2024, compared to 44% over the comparative period, driven by cost reduction initiatives.
- Adjusted EBITDA (as defined herein) for the three and nine months ended September 30, 2024, was \$5.1 million and \$12.6 million, respectively, a decrease of 21% and 37% over the comparative periods. The decrease in Adjusted EBITDA quarter over quarter was primarily driven by a decline in net Canadian recreational sales and international sales. Adjusted EBITDA is a non-GAAP financial measure. Refer to “Cautionary Statement Regarding Certain Non-GAAP Measures” in this MD&A for further details.
- Net Canadian recreational sales for the three and nine months ended September 30, 2024, were \$23.8 million and \$66.5 million, respectively, a decrease of 12% and 16% over the comparative periods. The decrease in net Canadian recreational sales was driven by increased competition in the infused pre-roll segment, and seasonal slow down in demand for pre-roll and vape products.

- International sales for the three and nine months ended September 30, 2024, were \$0.3 million and \$0.7 million compared to \$0.5 million and \$2.3 million in the three and nine month comparative periods. The quarter over quarter decrease in international sales was driven by the halt of exports to Israel as the Company transitioned to a new partner and partially offset by exports to new partners in the United Kingdom and Australia.
- Adjusted Net Income (loss) (as defined herein) for the three and nine months ended September 30, 2024, was positive \$2.1 million and negative \$0.8 million, respectively, an increase of \$1.5 million and a decrease of \$9 million over the comparative periods. The year-to-date decline in Adjusted Net Income was driven by impairment related to the Prairie Records Retail Sale and a decline in net revenue, partially offset by improved gross margin. Adjusted Earnings per Share for the three and nine months ended September 30, 2024, was \$nil and \$nil, respectively flat and a decrease of \$0.02 over the comparative periods. Adjusted Net Income is a non-GAAP financial measure. Refer to “Cautionary Statement Regarding Certain Non-GAAP Measures” in this MD&A for further details.
- Cash flow from operations was \$1.9 million and \$3.8 million for the three and nine months ended September 30, 2024, an increase of 6% and a decrease of 21% over the comparative periods.

## Operations

	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
<i>(thousands of Canadian dollars)</i>				
Gross revenue	36,896	46,459	103,235	134,078
Excise taxes	(12,787)	(18,917)	(36,010)	(53,064)
<b>Net revenue</b>	<b>24,109</b>	<b>27,542</b>	<b>67,225</b>	<b>81,014</b>
Cost of goods sold	(11,393)	(15,559)	(35,194)	(44,074)
<b>Gross profit before fair value adjustments</b>	<b>12,716</b>	<b>11,983</b>	<b>32,031</b>	<b>36,940</b>
Unrealized gain on changes in fair value of biological assets	1,201	4,683	9,108	9,107
Change in fair value of biological assets realized through inventory sold	(3,844)	(4,792)	(12,090)	(17,820)
<b>Gross profit</b>	<b>10,073</b>	<b>11,874</b>	<b>29,049</b>	<b>28,227</b>
Selling, general and administration	(8,480)	(9,778)	(23,170)	(23,813)
Depreciation and amortization	(1,219)	(690)	(3,640)	(2,049)
Share-based compensation (recovery)	(162)	(493)	631	(1,064)
<b>Income from operations</b>	<b>212</b>	<b>913</b>	<b>2,870</b>	<b>1,301</b>
Finance costs	(728)	(696)	(2,253)	(2,067)
Foreign exchange loss	(104)	(39)	(189)	(283)
Gain on disposal of Prairie Records Retail assets	-	-	62	-
Other income (loss)	89	99	(134)	242
Impairment loss	-	-	(672)	-
<b>Income (loss) before income taxes from continuing operations</b>	<b>(531)</b>	<b>277</b>	<b>(316)</b>	<b>(807)</b>
Current taxes	-	-	-	-
Deferred taxes	-	-	-	-
<b>Net income (loss) and comprehensive income (loss) from continuing operations</b>	<b>(531)</b>	<b>277</b>	<b>(316)</b>	<b>(807)</b>
<b>Net income (loss) and comprehensive income (loss) from discontinued operations</b>	<b>(54)</b>	<b>136</b>	<b>(3,480)</b>	<b>228</b>
<b>Net income (loss) and comprehensive income (loss)</b>	<b>(585)</b>	<b>413</b>	<b>(3,796)</b>	<b>(579)</b>

## Net Revenue

	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
<i>(thousands of Canadian dollars)</i>				
Gross Canadian recreational sales <sup>1</sup>	36,587	45,959	102,534	131,812
Excise taxes	(12,787)	(18,917)	(36,010)	(53,064)
<b>Net Canadian recreational sales <sup>1</sup></b>	<b>23,800</b>	<b>27,042</b>	<b>66,524</b>	<b>78,748</b>
International sales <sup>1</sup>	309	500	701	2,266
<b>Net revenue</b>	<b>24,109</b>	<b>27,542</b>	<b>67,225</b>	<b>81,014</b>

Net revenue for the three and nine months ended September 30, 2024, was \$24.1 million and 67.2 million, respectively, a decrease of 12% and 17% over the comparative periods. Net revenue decrease was driven by increased competition in the infused pre-roll segment, vape consumers switching towards large format 510 cartridges and disposables, and the halting of exports to Israel as the Company transitioned to a new distribution partner. This was partially offset by exports to new partners in the United Kingdom and Australia.

## Excise Taxes

	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
<i>(thousands of Canadian dollars, except where noted)</i>				
Gross Canadian recreational sales <sup>1</sup>	36,587	45,959	102,534	131,812
Excise taxes	12,787	18,917	36,010	53,064
<b>Excise taxes as a percentage of gross Canadian recreational sales</b>	<b>34.9%</b>	<b>41.2%</b>	<b>35.1%</b>	<b>40.3%</b>

Excise taxes as a percentage of wholesale revenue decreased over the comparative periods due to increased sales of lower excise tax derivative products. Derivative products are taxed based on milligrams of tetrahydrocannabinol (“THC”) whereas flower products are taxed on a flat rate, resulting in derivative products having a disproportionate amount of excise tax as a percentage of gross revenue relative to flower products.

## Gross Profit before Fair Value Adjustments

	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
<i>(thousands of Canadian dollars, except where noted)</i>				
Net revenue	24,109	27,542	67,225	81,014
Cost of goods sold	(11,393)	(15,559)	(35,194)	(44,074)
<b>Gross profit before fair value adjustments</b>	<b>12,716</b>	<b>11,983</b>	<b>32,031</b>	<b>36,940</b>
Gross margin before fair value adjustments	53%	44%	48%	46%

During the three and nine months ended September 30, 2024, the Company incurred cost of goods sold of \$11.4 million and \$35.2 million, resulting in a gross profit before fair value adjustments of \$12.7 million and \$32.0 million, respectively. Gross margin before fair value adjustments was 53% in the third quarter, compared to 44% over the comparative period.

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

Unrealized gain on changes in fair value of biological assets represents the markup to fair value of biological assets as they are undergoing biological transformation. This fair value is determined as the expected sales price net of costs to sell and costs to complete. For the three and nine months ended September 30, 2024, the Company recognized unrealized gains of \$1.2 million and \$9.1 million, respectively.

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

Change in fair value of biological assets realized through inventory sold is the fair value less costs to sell recognized during the biological transformation process related to cannabis inventory sold during the period. For the three and nine months ended September 30, 2024, the Company recognized a change in the fair value of inventory sold of \$3.8 million and \$12.1 million, respectively.

### *Selling, General and Administration*

Details of the most significant expense items in selling, general and administrative expenses (“SG&A”), are as follows:

	Three months ended		Nine months ended	
	September 30		September 30	
	2024	2023	2024	2023
<i>(thousands of Canadian dollars)</i>				
Salaries and wages	2,828	2,612	9,112	7,638
Marketing and branding	1,931	1,484	6,398	3,729
Office and general	2,382	1,826	4,135	4,941
Professional fees	349	258	1,641	1,302
Consulting fees	404	761	778	2,933
Litigation settlement	-	2,573	-	2,573
Bad debt expense	430	-	513	-
Travel and accommodation	152	264	486	697
Severance	4	-	107	-
<b>Total selling, general and administration</b>	<b>8,480</b>	<b>9,778</b>	<b>23,170</b>	<b>23,813</b>

SG&A decreased over the comparative periods primarily due to process optimization and right-sizing labour implemented by management.

### **Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (“Adjusted EBITDA”)**

	Three months ended		Nine months ended	
	September 30		September 30	
	2024	2023	2024	2023
<i>(thousands of Canadian dollars)</i>				
Net income (loss) and comprehensive income (loss)	(585)	413	(3,796)	(579)
Unrealized gain on changes in fair value of biological assets	(1,201)	(4,683)	(9,108)	(9,107)
Change in fair value of biological assets realized through inventory sold	3,844	4,792	12,090	17,820
Depreciation and amortization	1,219	690	3,640	2,049
Share-based compensation (recovery)	162	493	(631)	1,064
Other (income)	(89)	(99)	134	(242)
Finance costs	728	696	2,253	2,067
Foreign exchange loss	104	39	189	283
Gain on disposal of Prairie Records Retail assets	-	-	(62)	-
Non-cash cost of goods sold <sup>1</sup>	480	1,177	3,032	3,810
Other adjustments <sup>2</sup>	485	2,957	4,932	2,957
<b>Adjusted EBITDA<sup>3</sup></b>	<b>5,147</b>	<b>6,475</b>	<b>12,673</b>	<b>20,122</b>

<sup>1</sup> Relates to depreciation and amortization included in cost of goods sold, write downs of inventory to net realizable value, and abnormal waste. For the three and nine months ended September 30, 2024, non-cash cost of goods sold was comprised of \$480 thousand and \$3.0 million, respectively of depreciation and amortization (September 30, 2023 - \$3.8).

<sup>2</sup> Litigation expenses, bad debt expense, severance, and impairment are added back in the Company's Adjusted EBITDA calculation for covenant reporting purposes. For the three and nine months ended September 30, 2024, UCG Canada LP ("UCG") related litigation expenses were \$nil and \$147 thousand (September 30, 2023 - \$3 million), bad debt expense was \$513 thousand (September 30, 2023 - \$nil), impairment from continued operations was \$nil and \$672 thousand (September 30, 2023 - \$nil), impairment from discontinued operations was \$0.1 thousand and \$3.4 million (September 30, 2023 - \$nil). Bad debt and Litigation expense amounts are included in SG&A expenses in the Company's consolidated statements of loss and comprehensive loss.

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

The decrease in Adjusted EBITDA over the comparative period was primarily driven by a decline in net Canadian recreational sales and international sales. Adjusted EBITDA is a non-GAAP financial measure. Refer to "Cautionary Statement Regarding Certain Non-GAAP Measures" for further details.

### Adjusted Net Income ("Adjusted Net Income")<sup>1</sup>

	Three months ended		Nine months ended	
	September 30		September 30	
	2024	2023	2024	2023
<i>(thousands of Canadian dollars)</i>				
Net income (loss) and comprehensive income (loss)	(585)	413	(3,796)	(579)
Unrealized gain on changes in fair value of biological assets	(1,201)	(4,683)	(9,108)	(9,107)
Change in fair value of biological assets realized through inventory sold	3,844	4,792	12,090	17,820
<b>Adjusted net income (loss)<sup>1</sup></b>	<b>2,058</b>	<b>522</b>	<b>(814)</b>	<b>8,134</b>
Weighted average number of shares outstanding	409,039,064	472,318,208	409,039,064	409,039,064
<b>Adjusted EPS</b>	<b>\$0.01</b>	<b>-</b>	<b>-</b>	<b>\$0.02</b>

<sup>1</sup> Non-GAAP financial measure. Refer to "Cautionary Statement Regarding Certain Non-GAAP Measures" in this MD&A for further details.

The increase in Adjusted Net Income for the three and nine months ended September 30, 2024, over the comparative periods was driven by impairment related to Prairie Records Retail Sale, and the decline in net revenue, partially offset by an improvement in in gross margin before fair value adjustments.

### Free Cash Flow ("Free Cash Flow")<sup>1</sup>

	Three months ended		Nine months ended	
	September 30		September 30	
	2024	2023	2024	2023
<i>(thousands of Canadian dollars)</i>				
Cash provided by operating activities	1,906	1,793	3,766	4,758
Cash used in investing activities	(133)	(780)	(754)	(1,730)
<b>Free cash flow<sup>1</sup></b>	<b>1,773</b>	<b>1,013</b>	<b>3,012</b>	<b>3,028</b>

<sup>1</sup> Non-GAAP financial measure. Refer to "Cautionary Statement Regarding Certain Non-GAAP Measures" in this MD&A for further details.

Free Cash Flow was \$1.8 million and \$3.0 million for the three and nine months ended September 30, 2024, an increase of \$0.8 million and flat over the comparative periods. Free Cash Flow increased largely as a result of accounts receivable and inventory decreases, reduction in capital investments, partially offset by decreases to accounts payable.

### Statement of Financial Position

#### Inventory

As at September 30, 2024, the Company had \$44.2 million (December 31, 2023 - \$48.8 million) in inventory related to cannabis and cannabis accessories. During the nine months ended September 30, 2024, \$1.9 million of inventory was provisioned and written off through cost of goods sold and change in fair value of biological assets realized through inventory sold.

### *Other Current Assets*

As at September 30, 2024, the Company had other current assets of \$3.7 million (December 31, 2023 - \$3.7 million). This balance is comprised of deposits for inventory purchases or services and other cash deposits.

### *Other Long-term Assets*

As at September 30, 2024, the Company had other long-term assets of \$4.4 million (December 31, 2023 - \$3.0 million). This balance is comprised of deposits for genetic purchases, insurance, and leases.

The genetics purchase agreement that Decibel entered into on January 1, 2021, allows the Company to purchase genetics assets from a non-arm's length third party over a three plus two-year optional term. Amounts are payable quarterly and are presented on the consolidated statements of financial position as deposits until such time that title of the intangible assets are transferred to the Company. 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.

### *Capital Additions*

For the three and nine months ended September 30, 2024, the Company incurred the following:

- \$101 thousand and \$405 thousand (2023 – \$257 thousand respectively) in construction costs. These additions relate to capital improvements at The Plant and Thunderchild Cultivation Facility.
- \$nil and \$4 thousand (2023 - \$258 thousand) in building additions during the three and nine months ended, with amounts being reclassified to construction in progress during the fourth quarter. These additions relate to capital improvements at The Plant and Thunderchild Cultivation Facility and HVAC upgrades at the Creston Facility.
- \$33 thousand and \$93 thousand (2023 - \$450 thousand) in production equipment during the three and nine months ended, with amounts being reclassified to construction in progress during the fourth quarter. These additions are related to facility upgrades to enhance quality and yields at the Creston Facility, and automation equipment to reduce labour force requirements at the Thunderchild Cultivation Facility. Additions at The Plant include various equipment utilized to reduce labour force requirements, expand capacity, and streamline production.
- \$nil and \$9 thousand (2023 - \$133 thousand) in other capital additions related to furniture, fixtures, and computer hardware and software for corporate purposes.

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

As at September 30, 2024, right-of-use assets totalled \$6.7 million (December 31, 2023 - \$8.1 million) and lease liabilities totalled \$6.2 million (December 31, 2023 - \$7.6 million). The decrease in right-of-use assets and lease liabilities was driven by the sale of Prairie Records retail assets as well as lease repayments made during Q3 2024.

## Summary of Quarterly Results <sup>2</sup>

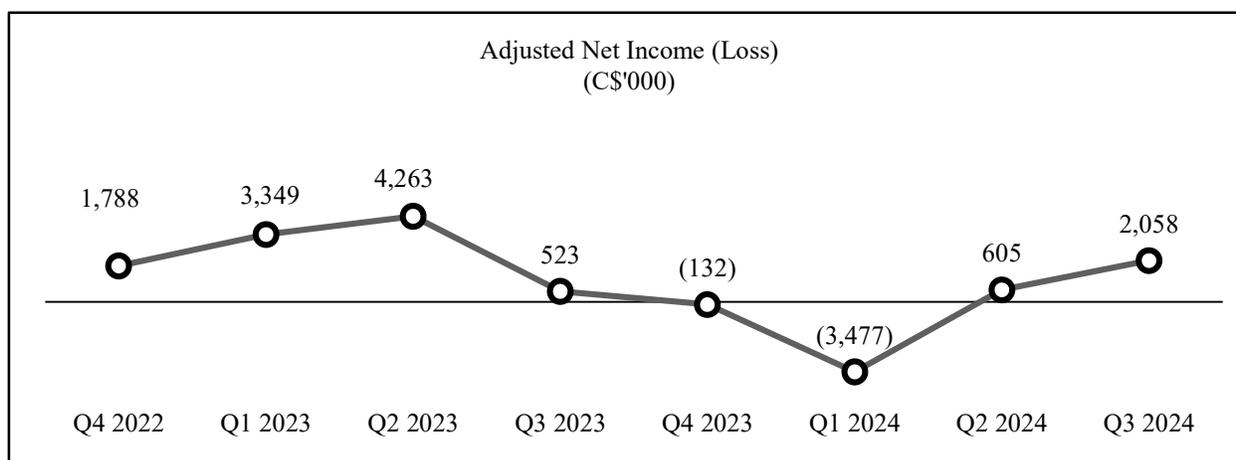
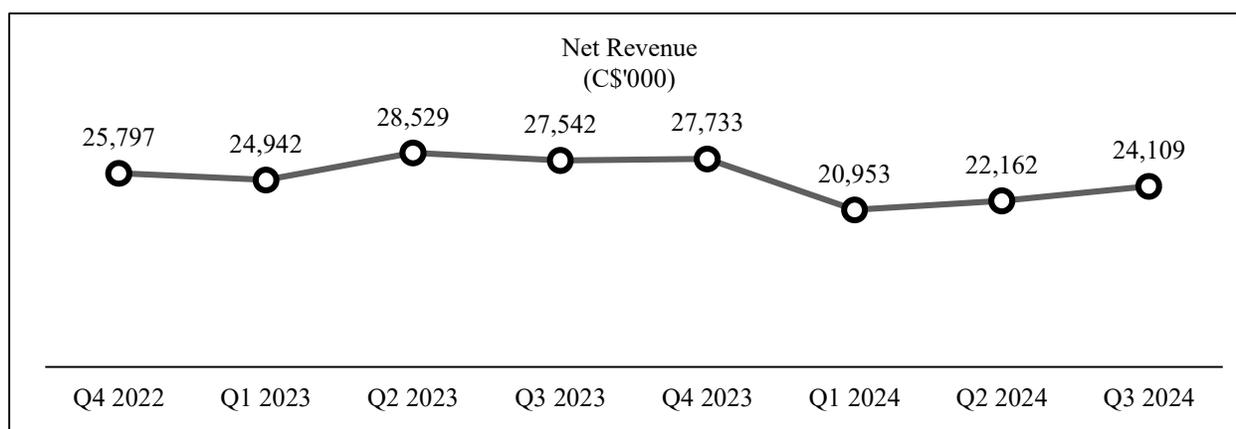
The following tables set out certain financial information for each of the Company's prior quarterly reporting periods:

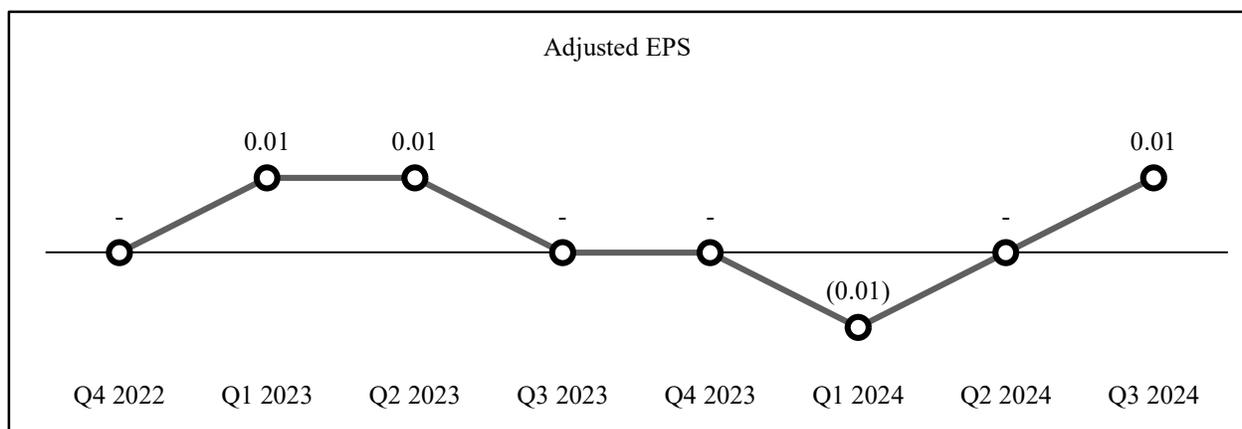
	Net Revenue	Adjusted Net Income (loss) <sup>1</sup>	Adjusted EPS (loss) basic/diluted <sup>2</sup>
<i>(thousands of Canadian dollars, except per share amounts)</i>			
December 31, 2022	25,797	1,788	- / -
March 31, 2023	24,942	3,349	0.01 / 0.01
June 30, 2023	28,529	4,263	0.01 / 0.01
September 30, 2023	27,542	523	- / -
December 31, 2023	27,733	(132)	- / -
March 31, 2024	20,953	(3,477)	(0.01) / (0.01)
June 30, 2024	22,162	605	- / -
September 30, 2024	24,109	2,058	0.01 / 0.01

<sup>1</sup> Non-GAAP financial measure. Refer to "Cautionary Statement Regarding Certain Non-GAAP Measures" for further details.

<sup>2</sup> Non-GAAP ratio. Refer to "Non-GAAP and Other Financial Measures" for further details.

<sup>3</sup> The 2022 financial periods have not been restated for discontinued operations relating to the Prairie Records Retail Sale.





Net income (loss) over the last eight quarters fluctuated primarily due to unrealized fair value gains from biological assets, net revenue, cost engineering measures employed by management, inventory write-offs, and recognition of stock-based compensation expenses.

### Liquidity and Capital Resources

To date, the Company has met its operational and capital requirements primarily through debt financing, equity financings, and the generation of net revenues. The Company's ability to sustain its capital resourcing needs with cash flows from operations is contingent upon successful ongoing operations and the availability of future financing to sustain working capital requirements.

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

The Company's working capital details are as follows:

As at, <i>(thousands of Canadian dollars)</i>	September 30, 2024	December 31, 2023
Cash	3,021	3,481
Accounts receivable	12,927	13,664
Other current assets	3,691	3,742
Biological assets	769	1,891
Inventory	44,161	48,705
Accounts payable and accrued liabilities	(39,954)	(45,023)
Current portion of lease liabilities	(1,499)	(1,481)
Current portion of long-term debt	(8,725)	(8,616)
Other current liabilities	(11)	(1,568)
<b>Total working capital<sup>1</sup></b>	<b>14,380</b>	<b>14,795</b>

<sup>1</sup> Capital management measure. Refer to "Cautionary Statement Regarding Certain Non-GAAP Measures" in this MD&A for further details.

As at September 30, 2024, the Company had a total working capital surplus of \$14.4 million (2023 - \$14.8 million surplus) and a total consolidated cash position of \$3.0 million (2023 - \$3.5 million). This cash is not subject to any restrictions.

As at,	September 30, 2024	December 31, 2023
<i>(thousands of Canadian dollars)</i>		
Term loans <sup>1</sup>	38,919	40,964
Share Capital	54,078	54,078
<b>Total capitalization</b>	<b>92,997</b>	<b>95,042</b>

<sup>1</sup> Term loans include the Company's term debt and authorized overdraft which both have a five-year term with a maturity date of January 1, 2027. Principal repayments vary by facility and are based on ten-year amortization periods, for more information, refer to Note 12 of the Condensed Consolidated Interim Financial Statements.

The decrease in Decibel's total capitalization as at September 30, 2024, over the comparative period is primarily related to the debt repayment during the period. Refer to "Going concern" in this MD&A.

As at September 30, 2024, the Company had \$38.9 million of debt outstanding. The Company's \$7.5 million accordion line remains undrawn. The \$7.5 million accordion line is subject to a trailing three month funded debt to EBITDA ratio ("Debt to EBITDA Ratio") of less than or equal to 3.00:1.00 and other conditions as agreed upon with the Lender. As at September 30, 2024, Debt to EBITDA Ratio is 2.19x, and as a result the accordion line is now available to the Company and will continue to be subject to maintaining a Debt to EBITDA Ratio of less than or equal to 3.00:1.00 and other conditions as agreed upon with the Lender.

The Credit Facility is subject to the following financial covenants:

(a) Debt service coverage ratio

The Company shall not permit the debt service coverage ratio, defined as earnings before, interest, taxes, 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 period, calculated quarterly, to fall below 1.40:1.00.

As at September 30, 2024, the debt service coverage ratio is 2.62:1.00.

(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 at December 31, 2023a the debt to equity ratio was 0.98:1.00.

(c) Current ratio

The Company shall not permit the current ratio, defined as the ratio of current assets to current liabilities, 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, 2024, the current ratio is 1.29:1.00.

## Cash Flows

	Three months ended		Nine months ended	
	September 30		September 30	
	2024	2023	2024	2023
<i>(thousands of Canadian dollars)</i>				
Cash provided by operating activities	1,906	1,793	3,766	4,758
Cash used in investing activities	(133)	(780)	(754)	(1,730)
Free cash flow <sup>1</sup>	1,773	1,013	3,012	3,028
Cash used in financing activities	(1,156)	(988)	(3,472)	(2,603)
Increase/(decrease) in cash	617	25	(460)	425
Cash, beginning of period	2,404	3,366	3,481	2,966
<b>Cash, end of period</b>	<b>3,021</b>	<b>3,391</b>	<b>3,021</b>	<b>3,391</b>

<sup>1</sup> Non-GAAP financial measure. Refer to “Cautionary Statement Regarding Certain Non-GAAP Measures” for further details.

For the three and nine months ended September 30, 2024, cash provided by operating activities was \$1.9 million and \$3.8 million, an increase of \$0.1 million and a decrease of \$1.0 million over the comparative periods. The quarter over quarter decrease in cash flow from operations is primarily attributable to changes in non-cash working capital and the decline in net revenue.

For the three and nine months ended September 30, 2024, cash used in investing activities was \$133 thousand and \$754 thousand, respectively. The decrease was driven by the Company having completed the majority of its capital projects. Refer to “Statement of Financial Position – Capital Additions”.

For the three and nine months ended September 30, 2024, cash used by financing activities was \$1.2 million and \$3.5 million. The change in cash used in financing activities during the period is primarily due to repayment of long-term debt and lease liabilities. Refer to “Liquidity and Capital Resources”.

## Contractual Obligations

As at September 30, 2024, Decibel had contractual obligations as detailed below:

	Total	<1 Year	<2 Years	<3 Years	<4 Years	<5 Years	Thereafter
Accounts payable and accrued liabilities	39,954	39,954	-	-	-	-	-
Lease liabilities <sup>(i)</sup>	8,285	2,161	1,822	1,753	1,270	246	1,033
Loans and borrowings <sup>(ii)</sup>	47,734	10,457	4,484	4,434	4,434	4,434	19,491
<b>Total</b>	<b>95,973</b>	<b>52,572</b>	<b>6,306</b>	<b>6,187</b>	<b>5,704</b>	<b>4,680</b>	<b>20,524</b>

(i) Includes the interest portion of lease obligations.

(ii) Loans and borrowing balances are based on the credit facility in place at September 30, 2024. Included are the estimated interest and principal repayments, based on current amounts outstanding and current interest rates at September 30, 2024. Both are variable in nature.

In the event that disinterested shareholder approval of the shareholders of the Company is required, and is not obtained at the 2024 Shareholder Meeting, the Convertible Debenture will not convert into Common Shares, will begin accruing interest at a rate of 15% per annum, and the principal amount plus interest accrued thereon will be repayable on April 28, 2025.

## Commitments

(a) Material commitments as at September 30, 2024:

	2024	2025	2026	2027	2028 +
Government security <sup>(i)</sup>	1,318	-	-	-	-
Equipment purchases <sup>(ii)</sup>	-	-	-	-	-
Total	1,318	-	-	-	-

(i) Relates to scheduled payments to Government of Canada for financial security of Cannabis License.

(ii) The Company is committed to total payment of \$nil (2023 – \$163 thousand) pertaining to equipment purchases for the production facilities. Equipment is currently in the process of being manufactured or delivered by the supplier.

(b) Surety Bond as at September 30, 2024:

On January 26, 2021, the Company entered into a general indemnity agreement to obtain a commercial bond surety with a Canadian insurance provider. The commercial bond surety has been renewed for an additional annual term, expiring on November 25, 2025. This renewal provides the Company with a maximum coverage of \$1 million, subject to an annual premium of 1.5%. The Company obtained the surety bond as required under the Canada Revenue Agency's excise tax laws for the commercial distribution of cannabis goods throughout Canada.

## Outstanding Share Data

As of the date of this MD&A, the Company had 442.5 million Common Shares outstanding, \$nil Common Share purchase warrants outstanding, 0.5 million restricted share units outstanding, and 24.0 million stock options outstanding.

## Capital

As at September 30, 2024, and September 30, 2023, the Company was authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares. There are no preferred shares outstanding.

## Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at September 30, 2024, in the Condensed Consolidated Interim Financial Statements nor as of the date of this MD&A that have or are reasonably likely to have a current or future effect on the Company's financial performance or financial condition.

## Changes in Accounting Policies

There were no changes in accounting policies during the three and nine months ended September 30, 2024.

## Critical accounting judgements, estimates and assumptions

The preparation of the Company's Condensed Consolidated Interim Financial Statements in accordance with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and revenues and expenses. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Critical judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the Condensed Consolidated Interim Financial Statements are described below.

### **Biological assets and inventory**

The Company is required to make a number of significant estimates and assumptions in calculating the fair value less costs to sell and costs to complete of biological assets. The significant estimates and assumptions in determining the fair value less costs to sell and costs to complete of biological assets include the estimated average selling price per gram and average yield per plant. Further information on estimates used in determining the fair value of biological assets is contained in Note 4 of the Condensed Consolidated Interim Financial Statements.

The valuation of biological assets at the point of harvest is the cost basis for all cannabis-based inventory in the cultivation facility and, thus, any critical estimates and judgments related to the valuation of biological assets are also applicable for inventory. The valuation of work-in-process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for the inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

### **Financial Instruments**

IFRS requires that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The Company's financial instruments consist of cash, investments, deposits included in other assets, accounts receivable, accounts payable and accrued liabilities, and term loan debt. Management estimates that the fair value of its cash, accounts receivable, and accounts payable and accrued liabilities approximates their carrying values as at September 30, 2024, due to the relatively short maturity periods of these instruments.

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

Certain financial terms and measures contained in this MD&A are "specified financial measures" (as such term is defined in NI 52-112). The specified financial measures referred to in this MD&A are comprised of "Non-GAAP financial measures", "Non-GAAP financial ratios", "capital management measures" and "supplementary financial measures (as such terms are defined in NI 52-112).

These measures are defined, qualified, and where required, reconciled with the nearest GAAP measure below.

### **Non-GAAP Financial Measures**

The Non-GAAP financial measures used herein do not have a standardized meaning prescribed by GAAP. Accordingly, the Company's use of these terms may not be comparable to similarly defined measures presented by other companies. Investors are cautioned that the non-GAAP financial measures should not be considered in isolation nor as an alternative to net income (loss) or other financial information determined in accordance with GAAP, as an indication of the Company's performance.

- **Adjusted EBITDA:** Adjusted EBITDA is a measure of the Company's financial performance. It is intended to provide a proxy for the Company's operating cash flow and is widely used by industry analysts to compare Decibel to its competitors and derive expectations of future financial performance of the Company. Adjusted EBITDA increases comparability between comparative companies by eliminating variability resulting from differences in capital structures, management decisions related to resource allocation, and the impact of fair value adjustments on biological assets, inventory, and financial instruments, which may be volatile on a period to period basis. Adjusted EBITDA is not a recognized, defined, or standardized measure under IFRS. The Company calculates Adjusted EBITDA as net 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. Refer to “Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization” in this MD&A for a detailed calculation of this measure. The numbers that are input into this calculation can be found in the statement of income and comprehensive income in the Condensed Consolidated Interim Financial Statements. The following table reconciles the Adjusted EBITDA metric to the most comparable IFRS measure:

	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
<i>(thousands of Canadian dollars)</i>				
Net income (loss) and comprehensive income (loss)	(585)	413	(3,796)	(579)
Unrealized gain on changes in fair value of biological assets	(1,201)	(4,683)	(9,108)	(9,107)
Change in fair value of biological assets realized through inventory sold	3,844	4,792	12,090	17,820
Depreciation and amortization	1,219	690	3,640	2,049
Share-based compensation (recovery)	162	493	(631)	1,064
Other (income)	(89)	(99)	134	(242)
Finance costs	728	696	2,253	2,067
Foreign exchange loss	104	39	189	283
Gain on disposal of Prairie Records Retail assets	-	-	(62)	-
Non-cash cost of goods sold <sup>1</sup>	480	1,177	3,032	3,810
Other adjustments <sup>2</sup>	485	2,957	4,932	2,957
<b>Adjusted EBITDA<sup>3</sup></b>	<b>5,147</b>	<b>6,475</b>	<b>12,673</b>	<b>20,122</b>

<sup>1</sup> Relates to depreciation and amortization included in cost of goods sold, write downs of inventory to net realizable value, and abnormal waste. For the three and nine months ended September 30, 2024, non-cash cost of goods sold was comprised of \$480 thousand and \$3.0 million, respectively of depreciation and amortization (September 30, 2023 - \$3.8).

<sup>2</sup> Litigation expenses, bad debt expense, severance, and impairment are added back in the Company’s Adjusted EBITDA calculation for covenant reporting purposes. For the three and nine months ended September 30, 2024, UCG Canada LP (“UCG”) related litigation expenses were \$nil and \$147 thousand (September 30, 2023 - \$3 million), bad debt expense was \$513 thousand (September 30, 2023 - \$nil), impairment from continued operations was \$nil and \$672 thousand (September 30, 2023 - \$nil), impairment from discontinued operations was \$0.1 thousand and \$3.4 million (September 30, 2023 - \$nil). Bad debt and Litigation expense amounts are included in SG&A expenses in the Company’s consolidated statements of loss and comprehensive loss.

<sup>3</sup> Non-GAAP financial measure. Refer to “Cautionary Statement Regarding Certain Non-GAAP Measures” for further details.

- Adjusted Net Income and Adjusted Earnings per Share (“Adjusted EPS”): Adjusted Net Income and Adjusted EPS is a measure of the Company’s financial performance. It 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. These measures increase 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. These measures are not a recognized, defined, or standardized measure under IFRS. The Company calculates Adjusted Net Income 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. The Company calculates Adjusted Earnings per Share 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, dividend by the weighted average Common Shares outstanding. Refer to “Adjusted Net Income” in this MD&A for a detailed calculation of these measures. The numbers that are input into this calculation can be found in the statement of income and comprehensive income in the Company’s Condensed Consolidated Interim Financial Statements.

	Three months ended		Nine months ended	
	September 30		September 30	
	2024	2023	2024	2023
<i>(thousands of Canadian dollars)</i>				
Net income (loss) and comprehensive income (loss)	(585)	413	(3,796)	(579)
Unrealized gain on changes in fair value of biological assets	(1,201)	(4,683)	(9,108)	(9,107)
Change in fair value of biological assets realized through inventory sold	3,844	4,792	12,090	17,820
<b>Adjusted net income (loss)<sup>1</sup></b>	<b>2,058</b>	<b>522</b>	<b>(814)</b>	<b>8,134</b>
Weighted average number of shares outstanding	409,039,064	472,318,208	409,039,064	409,039,064
<b>Adjusted EPS</b>	<b>\$0.01</b>	<b>-</b>	<b>-</b>	<b>\$0.02</b>

<sup>1</sup> Non-GAAP financial measure. Refer to “Cautionary Statement Regarding Certain Non-GAAP Measures” in this MD&A for further details.

- **Free Cash Flow:** Free Cash Flow is a measure of the Company’s financial performance. It is a useful measure of Decibel’s ability to generate value and grow the Company’s business. This measure is not a recognized, defined, or standardized measure under IFRS. The Company calculates Free Cash Flow as cash flow from operations less cash used in investing activities. Refer to “Free Cash Flow” in this MD&A for a detailed calculation of these measures. The numbers that are input into this calculation can be found in the statement of cash flows in the Company’s Condensed Consolidated Interim Financial Statements.
- **Total Capitalization (“Total Capitalization”):** Total Capitalization is a measure of the Company’s total capital invested into the business. It is a useful measure of Decibel’s efficiency of capital investment when compared to peers. This measure is not recognized, defined or a standardized measure under IFRS. The Company calculates Total Capitalization as total debt plus share capital. Refer to “Liquidity and Capital Resources” for a detailed calculation of these measures. The numbers that are input into this calculation can be found in the statement of financial position in the Condensed Consolidated Interim Financial Statements.

### Non-GAAP Ratios

- **Adjusted Earnings per Share:** Adjusted earning per share (Adjusted Net Income (loss) divided by the number of outstanding shares) is a non-GAAP ratio, does not have a standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measure presented by other issuers. The Company believes that adjusted earnings per share is a useful metric to normalize net income for biological asset accounting impacts.

### Supplementary Financial Measures

- **International Sales:** International Sales is a measure intended to provide a more accurate depiction of the revenue earned by the Company’s international operations.
- **Gross Canadian Recreational Sales:** Gross Canadian Recreational Sales is a supplementary 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 Company’s Condensed Consolidated Interim Financial Statements to arrive at Gross Canadian Recreational Sales. In this MD&A, wholesale inventory transferred to the retail stores and subsequently sold is eliminated from retail sales and attributed to Gross Canadian Recreational Sales to provide a more accurate depiction of business performance.
- **Net Canadian Recreational Sales:** Net Canadian Recreational Sales is a supplementary 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 Net Canadian Recreational Sales as found in the Company’s Condensed Consolidated Interim Financial Statements to arrive at Net Canadian Recreational Sales. Excise taxes associated with Gross Canadian Recreational Sales are subtracted from Gross Canadian Recreational Sales to arrive at Net Canadian Recreational Sales. In the MD&A, wholesale inventory transferred to the retail stores and subsequently sold is eliminated from retail sales and attributed to Net Canadian Recreational Sales to provide a more accurate depiction of business performance.

## Other Financial Measures

Capital management measures are defined as financial measures disclosed by an issuer that are intended to enable an individual to evaluate the entity's objectives, policies and processes for managing the entity's capital, are not a component of a line item or a line item on the primary financial statements, and which are disclosed in the notes to the financial statements. As at September 30, 2024, the Company's capital management measures disclosed in the notes to the Condensed Consolidated Interim Financial Statements include Working Capital.

- Working Capital: Working Capital is a capital management measure of the Company's ability to service its short-term financial obligations with short-term assets. Management believes this measure provides useful information about the Company's current short-term liquidity. Refer to "Liquidity and Capital Resources" in this MD&A for a detailed calculation of this measure. See Note 19 to the Condensed Consolidated Interim Financial Statements.

As at,	September 30, 2024	December 31, 2023
<i>(thousands of Canadian dollars)</i>		
Cash	3,021	3,481
Accounts receivable	12,927	13,664
Other current assets	3,691	3,742
Biological assets	769	1,891
Inventory	44,161	48,705
Accounts payable and accrued liabilities	(39,954)	(45,023)
Current portion of lease liabilities	(1,499)	(1,481)
Current portion of long-term debt	(8,725)	(8,616)
Other current liabilities	(11)	(1,568)
<b>Total working capital<sup>1</sup></b>	<b>14,380</b>	<b>14,795</b>

<sup>1</sup> Capital management measure. Refer to "Cautionary Statement Regarding Certain Non-GAAP Measures" in this MD&A for further details.

## Other MD&A Disclosures

### *Forward-Looking Information*

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

Forward-looking information and statements may be identifiable by the use of words such as "achieve", "anticipate", "budget", "could", "estimate", "expect", "future", "forecast", "intend", "may", "might", "occur", "plan", "potential", "prospective", "should", "will", "would" and other similar expressions. By its nature, forward-looking information is inherently subject to the risk that actual results can be materially different from the expected outcomes. The Company does not provide any assurance as to the accuracy of this forward-looking information and cautions readers not to place undue reliance on it.

Certain forward-looking information in this MD&A includes but is not limited to, the Company's:

- expectations with respect to its ability to comply with its financial covenants for at least the next twelve months;
- expectations regarding future volatility in its gross margin related to price competition;
- the results of the Anti-Dumping Investigation;
- expectation that certain identified cost engineering initiatives and capital investments will reduce labour and logistics costs;
- ability to amend the Credit Facility to ensure its availability should the Company anticipate non-compliance;

- the ability of the Company to continue operating as a “Going Concern”;
- expectation, implied or expressed, about the Company’s ability to integrate AgMedica and its operations into the overall business of the Corporation;
- expectation as to the receipt of TSX-V approval, and disinterested shareholder approval, if required, for the conversion of the Convertible Debenture;
- expectations regarding maintaining licensing related to the cultivation, production and sale of cannabis and cannabis products by the Company, its subsidiaries, affiliates and partnerships;
- expectations regarding future expenditures, including but not limited to both operational and capital expenditures;
- ability to ensure that it has sufficient funds to meet obligations as they become due;
- expectations regarding the timing of the first shipment of flower and vape products to the UK;
- ability to access debt financing; and
- contractual obligations and the anticipated timing thereof.

Forward-looking information involves known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, levels of activity, performance or achievements to differ materially from those anticipated in such forward-looking information.

Although the forward-looking information contained in the MD&A is based upon what the Company believes to be reasonable assumptions, no assurance can be given that these expectations will prove to be accurate and such forward-looking information included in this MD&A should not be unduly relied upon by investors. With respect to the forward-looking information and FOFI (as defined below) contained in this MD&A, management has made assumptions regarding, among other things:

- 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 and to execute on its expansion plans;
- the timelines for new product launches,
- Decibel’s ability to continue investing in infrastructure and implement scalable controls, systems and processes to support its growth;
- the ability for Decibel to successfully integrate AgMedica and its operations into Decibel’s overall business;
- the conversion of the Convertible Debenture into Common Sales;
- Decibel’s ability to repay the Convertible Debenture, in the event that is not converted to Common Shares;
- the impact of competition;
- the changes and trends in our 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.

Some of the risks which could affect future results and could cause results to differ materially from those expressed in the forward-looking information and FOFI contained herein include the risk factors set out in the annual MD&A and also include, but are not limited to:

- 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 and other third regulatory bodies;

- ability to obtain TSX-V approval, and if required, disinterested shareholder approval for the conversion of the Convertible Debenture;
- risk related to AgMedica's operation, and the delay or inability to successfully to integrate AgMedica and its operations into the overall business of the Company;
- future legislative and regulatory developments, both domestically and internationally, involving cannabis;
- inability to access sufficient capital from internal and external sources, and/or inability to access sufficient capital on favourable terms;
- the risk that the Company will be unable to amend the terms of the Credit Facility to ensure their availability should the Company anticipate non-compliance with its financial covenants;
- the labour market generally and the ability to access, hire and retain employees; and
- general business, economic, competitive, political and social uncertainties.

Any financial outlook or future oriented financial information (in each case "**FOFI**") contained in this MD&A regarding prospective financial position, including, but not limited to: anticipated target gross margin and the potential for a significant reduction in labour requirements and logistics costs, 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 information and FOFI contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking information and FOFI included in this MD&A are made as of the date hereof and Decibel does not undertake any obligation to publicly update such forward-looking information to reflect new information, subsequent events or otherwise unless so required by applicable securities laws.

#### *Industry Trends and Risks*

Decibel's industry trends and risks remain unchanged from that discussed in the annual MD&A for the year ended December 31, 2023, as filed on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).