

DECIBEL CANNABIS COMPANY INC.

Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2024 and 2023
(In Canadian Dollars)

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

As at September 30, 2024 and December 31, 2023

(Unaudited - In thousands of Canadian dollars)

	Notes	September 30, 2024	December 31, 2023
Assets			
Current assets			
Cash		3,021	3,481
Accounts receivable	3	12,927	13,664
Other current assets	6	3,691	3,742
Biological assets	4	769	1,891
Inventory	5	44,161	48,705
		<u>64,569</u>	<u>71,483</u>
Property, plant and equipment		52,279	55,577
Right-of-use assets		6,719	8,148
Other long-term assets	6	4,394	2,993
Intangible assets		585	527
Goodwill	7	-	4,259
		<u>128,546</u>	<u>142,987</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	17	39,954	45,023
Current portion of lease liabilities		1,499	1,481
Current portion of long-term debt	8	8,725	8,616
Other current liabilities		11	1,568
		<u>50,189</u>	<u>56,688</u>
Long-term lease liabilities		4,695	6,070
Long-term debt	8	30,194	32,348
Other long-term liabilities		930	1,685
		<u>86,008</u>	<u>96,791</u>
Shareholders' equity			
Share capital	9	54,078	54,078
Reserves		16,437	16,299
Deficit		(27,977)	(24,181)
		<u>42,538</u>	<u>46,196</u>
		<u>128,546</u>	<u>142,987</u>
Going concern (Note 1)			
Commitments and contingencies (Note 18)			
Subsequent events (Note 20)			

Approved on behalf of the board:

"Nadia Vattovaz"

Signed: Director

"Shawn Dym"

Signed: Chairman

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

DECIBEL CANNABIS COMPANY INC.

Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)

For the three and nine months ended September 30, 2024 and 2023

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

		Three months ended		Nine months ended	
		September 30		September 30	
	Notes	2024	2023	2024	2023
Revenue					
Gross revenue		36,896	46,459	103,235	134,078
Excise taxes		(12,787)	(18,917)	(36,010)	(53,064)
Net revenue	11	24,109	27,542	67,225	81,014
Cost of goods sold	5	11,393	15,559	35,194	44,074
Gross profit before fair value adjustments		12,716	11,983	32,031	36,940
Unrealized gain on changes in fair value of biological assets	4	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)
Gross profit		10,073	11,874	29,049	28,227
Selling, general and administration	13	8,480	9,778	23,170	23,813
Depreciation and amortization		1,219	690	3,640	2,049
Share-based compensation (recovery)	10	162	493	(631)	1,064
		9,861	10,961	26,179	26,926
Income from continuing operations		212	913	2,870	1,301
Non-operating items:					
Finance costs	12	728	696	2,253	2,067
Foreign exchange loss		104	39	189	283
Gain on disposal of Prairie Records Retail assets		-	-	(62)	-
Other (income) and expenses		(89)	(99)	134	(242)
Impairment loss		-	-	672	-
Income (loss) before income taxes from continuing operations		(531)	277	(316)	(807)
Current income taxes		-	-	-	-
Deferred incomes taxes		-	-	-	-
		-	-	-	-
Net income (loss) and comprehensive income (loss) from continuing operations		(531)	277	(316)	(807)
Net income (loss) and comprehensive income (loss) from discontinued operations	7	(54)	136	(3,480)	228
Net income (loss) and comprehensive income (loss)		(585)	413	(3,796)	(579)
Basic and diluted income (loss) per share from continuing operations	14	-	-	-	-
Basic and diluted income (loss) per share from discontinuing operations	14	-	-	(0.01)	-
Basic and diluted income (loss) per share	14	-	-	(0.01)	-
Weighted average number of shares outstanding					
Basic	14	409,039,064	409,039,064	409,039,064	409,039,064
Diluted	14	409,039,064	472,318,208	409,039,064	409,039,064

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

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

For the nine months ended September 30, 2024 and 2023

(thousands of Canadian dollars, except share amounts)

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

	Number of shares (Note 9) #	Share capital (Note 9) \$	Reserves		Deficit \$	Total \$
			Warrants \$	Contributed surplus \$		
Balance, January 1, 2024	409,039,064	54,078	3,680	12,619	(24,181)	46,196
Share based compensation	-	-	-	138	-	138
Expired warrants	-	-	(3,680)	3,680	-	-
Comprehensive loss	-	-	-	-	(3,796)	(3,796)
Balance, September 30, 2024	409,039,064	54,078	-	16,437	(27,977)	42,538

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

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

For the three and nine months ended September 30, 2024 and 2023

(Unaudited - In thousands of Canadian dollars)

		Three months ended		Nine months ended	
	Notes	September 30		September 30	
		2024	2023	2024	2023
Cash provided by (used in)					
Operating activities					
Net income (loss) from continuing operations		(531)	277	(316)	(807)
Depreciation and amortization		1,219	690	3,640	2,049
Finance costs	12	728	696	2,253	2,067
Unrealized gain on changes in fair value of biological assets	4	(1,201)	(4,683)	(9,108)	(9,107)
Change in fair value of biological assets realized		3,844	4,792	12,090	17,820
Impairment loss		-	-	672	-
Share-based compensation (recovery)	10	162	493	(631)	1,064
Gain on disposal of Prairie Records Retail assets		-	-	(62)	-
Other non-cash items		-	-	229	-
Interest paid on long-term debt and lease liabilities	12	(716)	(670)	(2,217)	(1,991)
Changes in non-cash working capital	16	(1,545)	(360)	(6,621)	(5,201)
Cash provided by (used in) continuing operating activities		1,960	1,235	(71)	5,894
Cash provided by (used in) discontinued operating activities	7	(54)	558	3,837	(1,136)
Cash provided by operating activities		1,906	1,793	3,766	4,758
Investing activities					
Purchase of property, plant and equipment		(133)	(79)	(508)	(1,029)
Purchase of intangible assets		-	(701)	(239)	(701)
Cash used in continuing investing activities		(133)	(780)	(747)	(1,730)
Cash used in discontinued investing activities	7	-	-	(7)	-
Cash used in investing activities		(133)	(780)	(754)	(1,730)
Financing activities					
Proceeds from exercise of stock options		-	-	-	356
Proceeds from long-term debt	16	-	143	-	392
Repayment of long-term debt	16	(714)	(804)	(2,081)	(2,415)
Repayment of lease liabilities		(442)	(156)	(1,340)	(668)
Cash used in continuing financing activities		(1,156)	(817)	(3,421)	(2,335)
Cash used in discontinued financing activities	7	-	(171)	(51)	(268)
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
Cash, end of period		3,021	3,391	3,021	3,391

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

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2024 and 2023

(thousands of Canadian dollars, except share amounts)

1. Nature of operations and general information

(a) Nature of operations

Decibel Cannabis Company Inc. (the “Company” or “Decibel”) is a vertically integrated cannabis company with two cultivation facilities, one of which received its licensing in January of 2021 and a processing and extraction facility which received its licensing in 2020. Decibel additionally acquired a third licensed cultivation facility upon its acquisition of AgMedica (as defined herein), completed on October 28, 2024. See Note 20 for additional details. The common shares of Decibel (“Common Shares”) trade on the TSX Venture Exchange (“TSX-V”) under the ticker symbol “DB” and on the OTCQB Venture Market under the symbol “DBCCF”.

The condensed consolidated interim financial statements for the three and nine months ended September 30, 2024 include Decibel Cannabis Company Inc. and its subsidiaries.

(b) General information

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

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

(c) Going concern

The condensed consolidated interim financial statements have been prepared based on accounting policies applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. During the nine-month period ended September 30, 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).

To continue as a going concern, the Company must generate sufficient income and cash flows to repay its obligations, finance operations and fund capital investments. The future of the Company is dependent on its ability to maintain profitable operations and maintain compliance with covenants relating to its lending agreements, generate sufficient funds from operations, continue receiving financial support from its lenders and obtain new financing. There is no certainty that the Company will raise these necessary funds from operations or financings.

1. Nature of operations and general information (continued)

The Company expects to comply with the financial covenants applicable to the credit facility (the “Credit Facility”) with Connect First Credit Union Ltd. (the “Lender”) for at least the next twelve months. A decrease or sustained period of materially reduced demand for Decibel’s principal products may result in non-compliance with the financial covenants and reduced liquidity related to changes in the Credit Facility. Non-compliance with the financial covenants in the Credit Facility could result in the debt becoming due and payable on demand. Should the Company anticipate non-compliance, Decibel will proactively approach the Lender to amend the Credit Facility to ensure its availability. There is no certainty that the Company will be successful in negotiating such amendments.

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.

The condensed consolidated interim financial statements do not reflect adjustments that may be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these condensed consolidated interim financial statements, material adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses and the statement of financial position classification used.

2. Basis of presentation

(a) Statement of compliance

The condensed consolidated interim financial statements of the Company have been prepared in accordance with IAS 34 Interim Financial Reporting.

The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. The accounting policies and critical estimates applied by the Company in the condensed consolidated interim financial statements are the same as those applied in the Company’s annual consolidated financial statements for the year ended December 31, 2023. Accordingly, these financial statements should be read in conjunction with the annual consolidated financial statements as at and for the year ended December 31, 2023, as filed on SEDAR at www.sedarplus.ca.

The condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors of the Company on November 19, 2024.

(b) Basis of measurement

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

(c) Functional currency and presentation of foreign currency

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

(d) Basis of consolidation

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

3. Accounts receivable

	September 30, 2024	December 31, 2023
Accounts receivable	12,898	13,430
Receiver general	29	234
Allowance for doubtful accounts	-	-
Balance, end of period	12,927	13,664

4. Biological assets

	September 30, 2024	December 31, 2023
Balance, beginning of year	1,891	2,358
Unrealized gain on changes in fair value of biological assets	9,108	12,549
Capitalized costs during biological transformation	6,261	9,846
Transferred to inventory upon harvest	(16,491)	(22,862)
Balance, end of period	769	1,891

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

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

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

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

	September 30, 2024	December 31, 2023	10% change 2024	10% change 2023
			\$	\$
Average selling price per gram	\$2.80	\$4.42	128,162	229,457
Stage of growth	33%	35%	37,219	122,799
Average yield per plant (grams)	64.86	48.01	37,219	122,799
Post-harvest cost per gram	\$0.17	\$0.45	14,382	43,475

The Company accretes fair value on a straight-line basis according to stage of growth. As a result, a cannabis plant that is 33% through its 16 weeks growing cycle would be ascribed approximately 33% of its harvest date expected fair value less remaining processing and selling costs.

5. Inventory

	September 30, 2024	December 31, 2023
Wholesale ⁽ⁱ⁾		
Raw materials	38,517	41,712
Finished goods	5,644	5,407
Total wholesale	44,161	47,119
Discontinued Retail Operations		
Cannabis	-	1,487
Accessories	-	69
Merchandise	-	30
Total discontinued retail operations	-	1,586
Balance, end of period	44,161	48,705

(i) Includes \$12.4 million within the Company's extraction and manufacturing cash generating unit.

In the nine-month period ended September 30, 2024, inventories of \$35.2 million (2023 – \$44.1 million) were recognized as an expense during the year and included in 'cost of sales'. Inventories were reduced by a \$1.9 million write-down (2023 - \$1.2 million) during the nine-month period ended September 30, 2024.

6. Other assets

	September 30, 2024	December 31, 2023
Prepaid expenses	1,210	862
Deposits	2,393	2,779
Sub-lease receivable	88	101
Other current assets	3,691	3,742
Deposits	4,394	2,931
Sub-lease receivable	-	62
Other long-term assets	4,394	2,993

A portion of the deposits balance as at September 30, 2024 is related to a genetics purchase agreement that Decibel entered into on January 1, 2021, as well as prepayments on vape cartridges and glass tube packaging for pre-rolls.

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

7. Assets held for sale and discontinued operations

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").

As of September 30, 2024, there are no assets held-for-sale with respect to the Prairie Records Retail Sale. On closing of the Prairie Records Retail Sale, the Company received cash of \$2.1 million, a promissory note of \$844 thousand and recorded an impairment loss of \$3.3 million on the net carrying value of \$6.2 million, which includes the Prairie Records goodwill of \$4.3 million presented in goodwill.

The operating results of the Prairie Records Retail Sale are reported herein as discontinued operations for the quarter ended September 30, 2024 and 2023, respectively:

	Three months ended		Nine months ended	
	September 30		September 30	
	2024	2023	2024	2023
Retail revenue	-	2,648	2,649	7,211
Cost of goods sold	-	1,793	1,740	4,885
Gross profit	-	855	909	2,326
Selling, general and administration	54	490	715	1,451
Depreciation and amortization	-	145	309	470
Share compensation expense	-	-	2	-
Income (loss) from discontinued operations	(54)	220	(117)	405
Non-operating items:				
Finance costs		36	31	104
Gain on disposal of property, plant and equipment	-	-	(3)	-
Other income	-	48	-	73
Impairment	-	-	3,335	-
	-	84	3,363	177
Net income (loss) and comprehensive income (loss) from discontinued operations	(54)	136	(3,480)	228

Discontinued operations reported in the condensed consolidated interim statements of cash flows are as follows:

	Three months ended		Nine months ended	
	September 30		September 30	
	2024	2023	2024	2023
Cash provided by (used in) discontinued operating activities	(54)	558	3,837	(1,136)
Cash used in discontinued investing activities	-	-	(7)	-
Cash used in discontinued financing activities	-	(171)	(51)	(268)

8. Long-term debt

Type of loan	Maturity	September 30, 2024	December 31, 2023
Connect First commercial mortgage loan	January 1, 2027	23,456	24,927
Connect First commercial mortgage loan	January 1, 2027	10,095	10,708
Authorized overdraft	On demand	5,822	5,819
Debt issuance costs		(454)	(490)
		38,919	40,964
Current		8,725	8,616
Long-term		30,194	32,348

On February 1, 2022, Decibel entered into an amended credit facility agreement (the “Credit Agreement”) with the Lender providing for an aggregate principal amount of \$54 million which is comprised of \$40.5 million of commercial mortgage loans, a \$6.0 million authorized overdraft, and an accordion line of an additional \$7.5 million that is available subject to a debt to EBITDA (as defined below) ratio of less than 3.00:1.00.

As at September 30, 2024, the Company’s debt to EBITDA ratio was 2.19:1.00.

There are two mortgage loans with the Lender which mature on January 1, 2027. The mortgage loans are subject to a fixed 4.75% interest rate on each of the loans, a prime plus 1.00% interest rate on its overdraft facility and a prime plus 2.00% interest rate on its accordion line. See Note 12 for interest incurred on long-term debt facilities.

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

Financial covenants

The Credit Agreement is subject to the following financial covenants as follows:

a. Debt service coverage ratio

The Company shall not permit the debt service coverage ratio, defined as earnings before interest, 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 year, 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 condensed consolidated interim consolidated statements of financial position, calculated annually to be greater than 1.00:1.00.

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

c. Current ratio

The Company shall not permit the current ratio, defined as the current assets ratio to current liabilities adjusted for lender approved adjustments to remove convertible debentures, as presented on the condensed consolidated interim consolidated 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 was 1.29:1.00.

9. Share capital

Common Shares are issued and outstanding.

	Shares	Share capital
	#	\$
Balance, January 1, 2023	404,654,387	53,533
Exercise of stock options	4,047,177	485
Exercise of restricted share units	337,500	60
Balance, December 31, 2023, and September 30, 2024	409,039,064	54,078

10. Contributed surplus

Equity-settled share-based instruments

(a) Warrants

	Financing warrants	Weighted average exercise price
	#	\$
Outstanding, January 1, 2023	28,980,000	0.39
Expired	(3,105,000)	0.29
Outstanding, December 31, 2023	25,875,000	0.40
Expired	(25,875,000)	-
Balance, September 30, 2024	-	-

(b) Stock options

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

	Number of options	Weighted average exercise price
	#	\$
Outstanding, January 1, 2023	40,744,822	0.26
Issued	4,500,000	0.13
Exercised	(4,047,177)	0.09
Forfeited	(947,874)	0.14
Expired	(2,398,500)	0.24
Outstanding, December 31, 2023	37,851,271	0.26
Forfeited	-	0.12
Expired	(13,794,046)	0.47
Outstanding, September 30, 2024	24,057,225	0.14

10. Contributed surplus (continued)

The Company may issue up to 60.4 million Common Shares under its combined stock option, Restricted Share Unit (“RSU”) and Deferred Share Unit (“DSU”) plans. The weighted average price of the Common Shares on the date of exercise of the stock options was \$0.14 during the nine-months period ended September 30, 2024 (2023 - \$0.09).

Expiry date	Number of options #	Number vested and	Exercise price
		exercisable #	\$/share \$
December 31, 2024	9,914,578	9,914,578	0.09
January 1, 2026	3,671,353	3,671,353	0.17
January 1, 2026	2,500,000	2,500,000	0.34
January 1, 2027	3,471,294	3,371,470	0.14
January 1, 2028	4,500,000	3,532,499	0.13
Outstanding September 30, 2024	24,057,225	22,989,900	0.14

(c) Restricted share units

The Company has a RSU plan for directors, officers, employees or affiliates of Decibel (“RSU Participants”). Each RSU entitles the RSU Participant to one Common Share or cash payment at the option of the Company with a straight-line vesting period over a one-year term for directors and up to a three-year term for all other participants. Each RSU is exercisable at the option of the holder and does not expire. The Company may issue up to 60.4 million Common Shares under its combined stock option, RSU and DSU plans.

	Outstanding	Weighted average issue price
	#	\$
Outstanding, January 1, 2023	842,835	0.19
Exercised	(337,500)	0.18
Balance, December 31, 2023, and September 30, 2024	505,335	0.19

Grant date	RSUs outstanding	RSUs vested, exercisable
	#	#
January 1, 2022	35,000	35,000
May 16, 2022	224,999	224,999
April 3, 2023	33,336	33,336
May 6, 2023	200,000	200,000
January 1, 2024	12,000	12,000
Outstanding September 30, 2024	505,335	505,335

10. Contributed surplus (continued)

(d) Share-based compensation expense

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2024	2023	2024	2023
Equity-settled awards:				
Stock options	46	74	138	220
Cash-settled awards:				
Deferred share units	33	137	(481)	284
Restricted share units	83	282	(288)	560
Total share-based compensation (recovery)	162	493	(631)	1,064

Cash-settled share-based instruments

The Company has a cash-settled RSU plan for RSU Participants. Each RSU entitles the RSU Participant to the cash equivalent of one Common Share for each vested RSU. The cash-settled RSUs awarded vest in three equal portions over three years and will be settled in cash on the later of an appointed payment date selected by the custodians of the RSU Plan (the “Board of Directors”) or the plan allotted vesting dates. The Board of Directors discretionary payment deferral must be settled within 3 years from the original grant date.

The Company also has a cash-settled DSU plan for directors of Decibel. Each DSU entitles the eligible participant to the cash equivalent of one common share for each vested DSU. The cash-settled DSUs are fully vested upon being credited to a director’s DSU account and will be redeemed upon the director’s departure from the Board of Directors.

At each reporting date, between grant and settlement date of the cash-settled share-based instruments, the fair value of the liability is re-measured with any changes in fair value recognized in net loss for the period. The short-term portion of cash-settled share-based compensation is presented in other current liabilities \$10 thousand (2023 - \$1,017 thousand). The long-term portion of cash-settled share-based compensation liability is presented in other long-term liabilities \$817 thousand (2023 - \$836 thousand).

	Cash-settled RSUs	Cash-settled DSUs	Fair Value
	#	#	\$
Outstanding, January 1, 2023	11,980,706	4,886,221	1,763
Issued	1,377,354	5,119,517	668
Exercised	(951,838)	(3,030,311)	(410)
Forfeited	(1,661,015)	-	(199)
Expired	-	(559,821)	(58)
Outstanding, December 31, 2023	10,745,207	6,415,606	1,765
Exercised	(1,319,049)	-	(938)
Outstanding September 30, 2024	9,426,158	6,415,606	827

10. Contributed surplus (continued)

Expiry Date	Outstanding RSUs	Number vested and exercisable	
		#	#
December 15, 2024	179,577	179,577	
January 1, 2027	9,246,581	8,435,821	
Outstanding September 30, 2024	9,426,158	8,615,398	

Grant Date	Outstanding DSUs	Number vested	
		#	#
April 16, 2021	736,267	736,267	
January 20, 2022	1,532,616	1,532,616	
April 13, 2023	4,146,723	4,146,723	
Outstanding September 30, 2024	6,415,606	6,415,606	

11. Revenue

The Company's revenue is comprised of Canadian and international wholesale sales of products through its production facilities to distributors and licensed cannabis producers.

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

The estimated variable consideration is based on historical experience and management's expectation of future returns and price adjustments. As at September 30, 2024, the return liability for the estimate of future returns and price adjustments was \$780 thousand (September 30, 2023 - \$71 thousand) and is included in accounts payable and accrued liabilities on the condensed consolidated interim statements of financial position.

	Three months ended		Nine months ended	
	September 30		September 30	
	2024	2023	2024	2023
Gross Canadian recreational sales	36,587	45,959	102,534	131,812
International sales	309	500	701	2,266
Gross revenue	36,896	46,459	103,235	134,078
Excise taxes	(12,787)	(18,917)	(36,010)	(53,064)
Net revenue	24,109	27,542	67,225	81,014

12. Finance costs

	Three months ended		Nine months ended	
	September 30		September 30	
	2024	2023	2024	2023
Cash finance costs				
Interest on term loan and equipment loan debt	520	563	1,591	1,681
Interest on lease liabilities	196	107	626	310
	716	670	2,217	1,991
Non-cash finance costs				
Accretion financing fees	12	26	36	76
	12	26	36	76
Total	728	696	2,253	2,067

13. Selling, general and administration expenses

	Three months ended		Nine months ended	
	September 30		September 30	
	2024	2023	2024	2023
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	-
Total selling, general and administration	8,480	9,778	23,170	23,813

14. Loss per share

Loss per share represents the loss attributable to common shareholders divided by the weighted average number of Common Shares outstanding during the period.

	Three months ended		Nine months ended	
	September 30		September 30	
	2024	2023	2024	2023
Net income (loss) from continuing operations	(531)	277	(316)	(807)
Net income (loss) from discontinued operations	(54)	136	(3,480)	228
W.A common shares - basic	409,039,064	409,039,064	409,039,064	409,039,064
W.A common shares - diluted	409,039,064	472,318,208	409,039,064	409,039,064
Net income (loss) from continuing operations per common share - basic & diluted	-	-	-	-
Net income (loss) from discontinued operations per common share - basic & diluted	-	-	(0.01)	-
Net loss per common share - basic & diluted	-	-	(0.01)	-

For the three-month period ended September 30, 2024 and nine month periods ended September 30, 2024 and 2023, as presented in the condensed consolidated interim statements of loss (income) and comprehensive loss (income), the Company reported a net loss and, as such, the applicable outstanding shares instruments are considered anti-dilutive.

For the three-month period ended September 30, 2023, as presented in the condensed consolidated interim statements of loss (income) and comprehensive loss (income), the Company reported a net income and comprehensive income as such 63,279,144 dilutive instruments were included in the computation of diluted net earnings per common share.

15. Segmented information

(a) Reportable segments

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

(b) Geographic information

All revenues were generated in Canada with the exception of international exports for \$701 thousand (2023 - \$2.3 million). All property, plant and equipment and intangible assets are located within Canada.

15. Segmented information (continued)

(c) Major customers

For the nine-month period ended September 30, 2024, three customers represented approximately 89.5% of the Company's wholesale revenue (2023 – three customers represented 93.4%) and 92.4% of the Company's wholesale revenue customers were governmental authorities (2023 – 94.2%), as is typical for the industry.

16. Supplemental cash flow disclosures

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2024	2023	2024	2023
Accounts receivable	(45)	(4,471)	744	(4,417)
Other current assets	(1,829)	64	(421)	288
Biological assets	1,959	4,156	10,597	10,812
Inventory	(1,810)	(8,137)	(9,131)	(18,456)
Other long-term assets	869	(119)	(1,602)	966
Accounts payable and accrued liabilities	(689)	4,557	(5,268)	2,016
Other current liabilities	-	3,590	(1,540)	3,590
Total	(1,545)	(360)	(6,621)	(5,201)

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

	September 30, 2024	September 30, 2023
	(i)	(i)
Balance, January 1, 2024 and 2023 (ii)	48,515	48,394
Cash changes:		
Proceeds from term loans and authorized overdraft	-	392
Repayment of lease liabilities	(1,340)	(668)
Repayments of term loans and authorized overdraft	(2,081)	(2,415)
Finance costs	2,253	2,066
Interest paid on long-term debt and lease liabilities	(2,217)	(1,991)
Transfer of lease liabilities held for sale and discontinued operations	(1,947)	(345)
Non-cash changes:		
Accretion financing charges	36	75
Lease additions	1,895	1,864
Balance, end of period	45,114	47,372

(i) Includes current and long-term portions.

(ii) Comprised of lease liabilities, equipment loan, and term loan debt.

17. Financial instruments and risk management

Fair value of financial instruments

The Company's financial instruments consist of cash, deposits included in other assets, accounts receivable (except amounts receivable from the Receiver General), accounts payable and accrued liabilities, long-term debt and cash-settled share-based instruments included in other liabilities. Management estimates that the fair value of its cash, accounts receivable (except amounts receivable from the Receiver General) accounts payable and accrued liabilities approximates their carrying values as of September 30, 2024 due to the relatively short maturity periods of these instruments. Long-term debt (except mortgage facilities) utilize floating rates and therefore fair value approximates carrying value.

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

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

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

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

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

The Company faces various financial instrument-related risks, which the Board of Directors mitigates by assessing, monitoring, and approving its risk management processes.

Credit risk

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

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

Accounts receivable consists of an unsecured promissory note from the Prairie Records Retail Sale, goods and services taxes recoverable ("GST") as well as amounts owing from customers for wholesale product. The Company evaluates the credit worthiness of the customer counterparties before credit is granted. The following table summarizes the Company's aging of trade receivables as at September 30, 2024 and December 31, 2023 net of expected credit losses.

	September 30, 2024	December 31, 2023
Trade Receivables		
0 - 30 days	12,426	12,323
31 - 60 days	4	1,867
61 - 90 days	186	286
Over 90 days	1,851	725
Total	14,467	15,201
Allowance for Doubtful Accounts	(1,741)	(1,817)
Promissory Note Receivable	172	-
Accrued Accounts Receivable	-	46
Receiver General	29	234
Balance, end of period	12,927	13,664

17. Financial instruments and risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. See Note 1 and Note 19 for further details on the going concern assumption and capital management, respectively.

In addition to the commitments outlined in Note 18, the Company has the following contractual obligations:

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

⁽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.

Market risk

a) Currency risk

The operating results and financial position of the Company are reported in Canadian dollars and all international sales are completed in Canadian dollars. The Company may work with US-sourced vendors and suppliers resulting in exposure to foreign currency exchange translation gains and losses. The Company is not exposed to material currency risk as at September 30, 2024.

b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. A 1.0% change in the effective interest rate on the overdraft, which bears floating rates of interest, would result in an estimated annual impact to profit or loss of \$58 thousand.

18. Commitments and contingencies

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

	2024	2025	2026	2027	2028 +
Government security ⁽ⁱ⁾	1,318	-	-	-	-
Equipment purchases ⁽ⁱⁱ⁾	-	-	-	-	-
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 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.

19. Capital management

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

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

The Company defines capital as total debt financing and share capital. As at September 30, 2024, the Company's total capital was \$93 million (September 30, 2023 - \$96 million), consisting of current and long-term debt and share capital.

As disclosed in Note 8, the Company's debt financing is subject to financial covenants. As at September 30, 2024, the Company is in compliance with all covenants. As at September 30, 2024, the Company is not subject to externally imposed capital requirements.

20. 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 \$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 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 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.