

DECIBEL CANNABIS COMPANY INC.

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

**For the three and six months ended June 30, 2020 and 2019
(In Canadian Dollars)**

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

As at June 30, 2020 and December 31, 2019

(Unaudited - In thousands of Canadian dollars)

	Notes	June 30, 2020	December 31, 2019
		\$	\$
Assets			
Current assets			
Cash		3,879	11,654
Accounts receivable	5	1,561	707
Other current assets		1,335	1,283
Biological assets	6	1,060	885
Inventory	7	7,596	5,016
		15,431	19,545
Property, plant and equipment	8	59,624	57,924
Right-of-use assets		4,808	5,673
Other long-term assets		473	380
Investments		414	290
Intangible assets		443	474
Goodwill		4,259	4,259
		85,452	88,545
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	19	7,601	8,113
Current portion of lease liabilities		536	540
Current portion of equipment loan		201	261
Current portion of long-term debt	9	3,722	1,621
		12,060	10,535
Long-term lease liabilities		4,747	5,410
Equipment loan		-	68
Long-term debt	9	22,893	22,769
Convertible debentures	10	10,249	9,878
		49,949	48,660
Shareholders' equity			
Share capital	11	42,966	42,106
Reserves	11	9,181	8,261
Deficit		(16,644)	(10,482)
		35,503	39,885
		85,452	88,545
Going concern (Note 1)			
Commitments and contingencies (Note 20)			

Approved on behalf of the board:

"Benjamin Sze"
Signed: Director

"Cody Church"
Signed: Chairman

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

DECIBEL CANNABIS COMPANY INC.**Condensed Consolidated Interim Statements of Comprehensive Income (Loss)**

For the three and six months ended June 30, 2020 and 2019

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

	Notes	Three months ended June 30, 2020 \$	Three months ended June 30, 2019 \$	Six months ended June 30, 2020 \$	Six months ended June 30, 2019 \$
Revenue					
Revenue	12	6,421	1,590	11,881	2,178
Excise taxes		(530)	(274)	(954)	(356)
Net revenue		5,891	1,316	10,927	1,822
Cost of goods sold		3,767	774	6,661	1,144
Gross profit before fair value adjustments		2,124	542	4,266	678
Unrealized gain on changes in fair value of biological assets	6	402	1,874	1,111	793
Change in fair value of biological assets realized through inventory sold		(592)	(727)	(1,295)	(520)
Gross profit		1,934	1,689	4,082	951
Selling, general and administration	15	2,658	419	5,607	787
Depreciation and amortization		585	11	1,065	37
Share-based compensation	11	726	215	1,780	288
		3,969	645	8,452	1,112
Income (loss) from operations		(2,035)	1,044	(4,370)	(161)
Non-operating expenses (income)					
Finance costs	14	699	4	1,719	10
Foreign exchange gain		16	-	(6)	-
Gain on disposal of property, plant and equipment		(7)	-	(13)	-
Listing expense		52	-	119	-
Other		4	(5)	(27)	(11)
		764	(1)	1,792	(1)
Income (loss) before income taxes		(2,799)	1,045	(6,162)	(160)
Income tax expense					
Current		-	-	-	-
Deferred		-	-	-	-
		-	-	-	-
Net income (loss) and comprehensive income (loss)		(2,799)	1,045	(6,162)	(160)
Income (loss) per share	16				
Basic		(0.01)	0.02	(0.02)	0.00
Diluted		(0.01)	0.02	(0.02)	0.00
Weighted average number of shares outstanding	16				
Basic		347,799,885	57,300,003	346,908,576	57,251,384
Diluted		347,799,885	58,342,653	346,908,576	57,251,384

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 six months ended June 30, 2020 and 2019

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

	Number of shares (Note 11)	Share capital (Note 11)	Reserves			Deficit	Total
			Warrants (Note 11)	Convertible debentures (Note 10)	Share-based payments (Note 11)		
	#	\$	\$	\$	\$	\$	\$
Balance, January 1, 2020	343,573,171	42,196	554	1,938	5,679	(10,482)	39,885
Exercise of restricted share units	4,559,535	770	-	-	(770)	-	-
Share based compensation	-	-	108	-	1,672	-	1,780
Comprehensive loss for period	-	-	-	-	-	(6,162)	(6,162)
Balance, June 30, 2020	348,132,706	42,966	662	1,938	6,581	(16,644)	35,503

	Number of shares (Note 11)	Share capital (Note 11)	Reserves			Deficit (restated) (Note 4)	Total
			Warrants (Note 11)	Convertible debentures (Note 10)	Share-based payments (Note 11)		
	#	\$	\$	\$	\$	\$	\$
Balance, January 1, 2019	57,200,003	12,179	-	-	2,456	(3,951)	10,684
Share issuances	100,000	200	-	-	-	-	200
Share compensation expense	-	-	-	-	288	-	288
Related-party loan	-	-	-	-	89	-	89
Comprehensive loss for period	-	-	-	-	-	(160)	(160)
Balance, June 30, 2019	57,300,003	12,379	-	-	2,833	(4,111)	11,101

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

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

For the six months ended June 30, 2020 and 2019

(Unaudited - In thousands of Canadian dollars)

	Notes	Six months ended June 30, 2020	Six months ended June 30, 2019 (restated - Note 4)
		\$	\$
Cash provide by (used in)			
Operating activities			
Loss for the period		(6,162)	(160)
Depreciation and amortization		1,065	415
Non-cash finance costs	14	655	1
Unrealized gain on changes in fair value of biological assets		(1,111)	(793)
Change in fair value of biological assets realized through inventory sold		1,295	520
Share-based compensation	11	1,780	288
Gain on disposal of right-of-use assets		(13)	-
Other non-cash items		2	1
Changes in non-cash working capital	18	(1,652)	(1,539)
Cash used in operating activities		(4,141)	(1,267)
Investing activities			
Purchase of property, plant and equipment assets	8	(2,760)	(301)
Proceeds from investments		50	-
Purchase of investments		(174)	-
Purchase of intangible assets		(10)	-
Changes in non-cash working capital	18	(2,379)	-
Cash used in investing activities		(5,273)	(301)
Financing activities			
Proceeds from issuance of common shares	11	-	200
Proceeds from promissory notes		-	1,000
Proceeds from long-term debt	9, 18	2,383	-
Financing fees	18	(117)	-
Repayment of equipment loan	18	(128)	-
Repayment of lease liabilities	18	(364)	(8)
Repayment of long-term debt	9, 18	(135)	-
Cash provided by financing activities		1,639	1,192
Decrease in cash		(7,775)	(376)
Cash, beginning of period		11,654	636
Cash, end of period		3,879	260

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 six months ended June 30, 2020 and 2019

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

1. Nature of operations and general information

(a) Nature of operations

We Grow B.C. Ltd. (“We Grow”), was incorporated on November 12, 2013, under the provisions of the British Columbia Business Corporations Act. Westleaf Inc. (“Westleaf”), formerly IGC Resources Inc., was incorporated as 433034 BC Ltd. under the laws of British Columbia in 1992 and continued into the Yukon Territory under the Business Corporations Act (Yukon) on March 3, 2000. Effective July 21, 2004, International Green Ice Inc. was continued out of the Yukon Territory back into British Columbia and changed its name to IGC Resources Inc. (“IGC”). On December 28, 2018, IGC completed a reverse takeover transaction (the “Transaction”) with Westleaf and concurrently continued into the province of Alberta and changed its name to Westleaf. On January 9, 2019, Westleaf began trading again on the TSX-V under the ticker symbol “WL”, changed to “DB” on March 1, 2020. In addition, on February 27, 2019, Westleaf Inc. began trading on the OTCQB Venture Market under the symbol “WSLFF”. Westleaf Inc.’s convertible debentures trade on the TSX-V under the trading symbol “WL.DB”.

On December 20, 2019, We Grow completed a plan of arrangement (the “Arrangement”) that constituted a reverse takeover of Westleaf and its subsidiaries. Accordingly, the comparative condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2019, present the historical results of We Grow.

On March 1, 2020, the Company underwent a corporate structure reorganization which resulted in renaming Westleaf Inc. to Decibel Cannabis Company Inc., a TSX-V ticker symbol change from “WL” to “DB”, as well as the following subsidiary changes:

- Westleaf Enterprises Inc. was amalgamated in to Decibel Cannabis Company Inc.
- Westleaf Cultivation Management II Inc. was renamed to Decibel Labs Holdings Inc.
- Candara Alberta Inc., Canndara Retail West Ltd., Canndara Franchise Inc. and Canndara Retail 101 Inc. were amalgamated into Canndara Canada Inc.
- Westleaf Holdings Inc. and Westleaf Cultivation Management I Inc. were amalgamated into Westleaf Enterprises Inc.
- Incorporation of two new 100% wholly-owned subsidiaries; Thunderchild Holdings Inc. and dB Thunderchild Cultivation Inc.
- Formation of a limited partnership, dB Thunderchild Cultivation LP

The condensed consolidated interim financial statements for the three and six months ended June 30, 2020, include Decibel Cannabis Company Inc., and its subsidiaries (together referred to as the “Company” or “Decibel”).

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

1. Nature of operations and general information (continued)

(b) General information

The head office and principal address of the Company is Suite 710, 530 - 8 Avenue SW, Calgary, AB, Canada. The Company's registered and records office address is Suite 2400, 525 - 8 Avenue SW, Calgary, AB, Canada.

Subsidiary	Place of incorporation	Percentage of ownership	Accounting method
Decibel Cannabis Company Inc.	Alberta	100%	Consolidation
Westleaf Retail Inc.	Alberta	100%	Consolidation
Decibel Labs Holdings Inc.	Alberta	100%	Consolidation
Westleaf Labs Inc.	Alberta	100%	Consolidation
Westleaf Labs LP	Alberta	100%	Consolidation
Westleaf Retail BC Inc.	British Columbia	100%	Consolidation
Westleaf International Inc.	Delaware USA	100%	Consolidation
Canndara Canada Inc	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

All significant intercompany balances and transactions are eliminated on consolidation.

Measurement Uncertainty COVID-19

The global impact of COVID-19 has had a significant impact on economies and financial markets. The impact on the Company cannot be reasonably estimated at this time but it could result in, among other things, supply chain issues, customer demand changes for the Company's products, logistics difficulties, personnel shortages as well as increased government regulations or interventions which could impact the Company's financial condition or results of operations.

(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 six-month period ended June 30, 2020, the Company incurred a net loss of \$6.1 million, utilized funds amounting to \$4.1 million in its operations and has net current assets of \$3.4 million. The effects that the COVID-19 pandemic have had, and is expected to continue to have, on the overall business environment and financial markets gives rise to uncertainty as to the future impacts it may have on the Company.

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 attain 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 financing or operations.

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

1. Nature of operations and general information (continued)

Going concern (continued)

Based on currently available information, the Company expects to comply with all covenants through the fiscal quarter ending June 30, 2021, however, these results are expected to be near the minimum amounts necessary to comply with some of the financial covenants in certain of those fiscal quarters. If the Company does not comply with the financial covenants, discussion with its lender to obtain necessary waivers will take place but there can be no guarantee that these will be received and its debts may become due on demand.

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

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

2. Basis of presentation

(a) Statement of compliance

The condensed consolidated interim financial statements of the Company have been prepared in accordance with International Accounting Standards 34, *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards (“IFRS”).

The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. Except as noted in Note 3 and Note 4, 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, 2019. Accordingly, these financial statements should be read in conjunction with the annual consolidated financial statements as at and for the year ended December 31, 2019, as filed on SEDAR at www.sedar.com.

The condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors of the Company on August 27, 2020.

All figures are presented in thousands of Canadian dollars unless otherwise noted.

Certain comparative figures have been reclassified to conform to the current period’s presentation.

(b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for biological assets which were 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.

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

3. Significant accounting policies

(a) Government grants and assistance

The Company recognizes an unconditional government grant or assistance when the amount becomes receivable. Amounts related to assets are recognized as reductions of the carrying amount of the associated assets on the condensed consolidated statements of financial position. Amounts related that compensate the Company for expenses incurred are presented as a reduction of the associated expense item on the condensed consolidated interim statements of comprehensive income (loss).

4. Adoption of new and amended standards and interpretations and change in accounting policies

(a) Biological assets

The Company's biological assets consist of cannabis plants which are not yet harvested. The value of the biological assets are measured at fair value less costs to sell and costs to complete. At the point of harvest, the biological assets are transferred to inventory at fair value less costs to sell and costs to complete. Unrealized fair value gains or losses arising from changes in fair value less cost to sell are included in the condensed consolidated interim statements of comprehensive income (loss) in the related period.

Effective January 1, 2020, the Company changed its accounting policy with respect to the direct and indirect costs incurred related to the biological transformation of its biological assets prior to the time of harvest. These costs are now capitalized as incurred to the biological assets that are presented on the condensed consolidated interim statements of financial position. The former accounting policy recognized these costs as wholesale costs of goods sold in the condensed consolidated interim statements of comprehensive income (loss) in the period in which they were incurred. The Company believes this change provides reliable and more relevant financial information to users of the condensed consolidated interim financial statements by more accurately matching the costs of inventory sold in the period in which a corresponding sale occurs.

The change in accounting policy has been applied retrospectively. Decibel has restated the comparative figures in the condensed consolidated interim financial statements. The following tables summarize the effects of the changes described above on the presented figures.

For the three months ended June 30, 2019:

	New accounting policy	Former accounting policy	Net impact
Condensed consolidated interim statement of comprehensive income (loss)	\$	\$	\$
Unrealized gain on changes in fair value of biological assets	1,874	2,609	(735)
Cost of goods sold	(774)	(1,406)	632
Change in fair value of biological assets realized through inventory sold	(727)	(830)	103
Net and comprehensive income (loss)			-

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

For the three and six months ended June 30, 2020 and 2019

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

4. Adoption of new and amended standards and interpretations and change in accounting policies (continued)

(a) Biological assets (continued)

	New accounting policy	Former accounting policy	Net impact
	\$	\$	\$
Condensed consolidated interim statement of cash flows			
Non-cash:			
Unrealized gain on changes in fair value of biological assets	(1,874)	(2,609)	735
Change in fair value of biological assets realized through inventory sold	727	830	(103)
Operating working capital	(1,249)	(617)	(632)
Net change in cash			-

For the six months ended June 30, 2019:

	New accounting policy	Former accounting policy	Net impact
	\$	\$	\$
Condensed consolidated interim statement of comprehensive income (loss)			
Unrealized gain on changes in fair value of biological assets	793	2,571	(1,778)
Cost of goods sold	(1,144)	(2,351)	1,207
Change in fair value of biological assets realized through inventory sold	(520)	(1,091)	571
Net and comprehensive income (loss)			-

	New accounting policy	Former accounting policy	Net impact
	\$	\$	\$
Condensed consolidated interim statement of cash flows			
Non-cash:			
Unrealized gain on changes in fair value of biological assets	(793)	(2,571)	1,778
Change in fair value of biological assets realized through inventory sold	520	1,091	(571)
Operating working capital	(1,539)	(332)	(1,207)
Net change in cash			-

(b) IFRS 3 Business combinations

Effective January 1, 2020, the Company adopted the amendments that were issued by the International Accounting Standards Board on October 22, 2018, to *IFRS 3 Business Combinations*, which clarified the classification of whether a transaction results in an asset or a business acquisition.

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

For the three and six months ended June 30, 2020 and 2019

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

4. Adoption of new and amended standards and interpretations and change in accounting policies (continued)

(b) IFRS 3 Business combinations (continued)

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The adoption of the amendment to IFRS 3 had no impact on the Company's condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2020.

5. Accounts receivable

	June 30, 2020	December 31, 2019
Accounts receivable	1,115	420
Receiver general	446	287
Balance	1,561	707

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

6. Biological assets

	June 30, 2020	December 31, 2019
Balance, beginning of year	885	864
Unrealized gain on changes in fair value of biological assets	1,111	3,303
Capitalized costs during biological transformation	2,304	3,543
Transferred to inventory upon harvest	(3,240)	(6,825)
Balance	1,060	885

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

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

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

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

For the three and six months ended June 30, 2020 and 2019

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

6. Biological assets (continued)

The following table quantifies each significant unobservable input, and also provides the impact a 10% increase/decrease in each input would have on the fair value of biological assets.

	June 30, 2020	December 31, 2019	10% change as at June 30, 2020	(restated) (Note 4) 10% change as at December 31, 2019
			\$	\$
Weighted average selling price per gram (i)	\$6.95	\$6.65	136,000	128,000
Stage of growth	50%	44%	34,000	48,000
Yield per plant (average)	34.10 grams	43.59 grams	34,000	48,000
Post-harvest cost per gram	\$1.51	\$2.44	(\$30,000)	(\$35,000)

i. Net of selling costs.

The Company accretes fair value on a straight-line basis according to stage of growth. As a result, a cannabis plant that is 50% through its 16 weeks growing cycle would be ascribed approximately 50% of its harvest date expected fair value less remaining processing and selling costs.

During the six months ended June 30, 2020, the Company harvested 624,731 grams of dried cannabis and trim (2019 – 625,480 grams). As of June 30, 2020, it was expected that the Company's biological assets would yield approximately 194,904 grams of dried cannabis and trim when harvested (December 31, 2019 – 188,183).

7. Inventory

	June 30, 2020	December 31, 2019
	\$	\$
Wholesale		
Raw materials	2,049	431
Work in process	3,581	2,101
Finished goods	951	1,160
Retail		
Cannabis	922	1,168
Accessories	83	139
Merchandise	10	17
Balance	7,596	5,016

The fair value changes in biological assets included in wholesale inventories sold during the three and six months ended June 30, 2020, account for a \$592 loss and a \$1.3 million loss, respectively (2019 - \$727 loss and \$520 loss).

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

For the three and six months ended June 30, 2020 and 2019

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

8. Property, plant and equipment

	Land	Buildings	Construction in progress	Leasehold improvements	Equipment	Furniture & fixtures	Computer software & hardware	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
Balance, January 1, 2019	1,600	3,737	-	-	2,778	13	85	8,213
Additions	-	200	205	1	846	5	3	1,260
Acquired in Business combination	2,200	11,776	30,832	2,514	1,604	314	928	50,168
Balance, December 31, 2019	3,800	15,713	31,037	2,515	5,228	332	1,016	59,641
Additions	-	432	1,370	329	415	47	167	2,760
Disposals	-	-	-	-	-	-	-	-
Balance, June 30, 2020	3,800	16,145	32,407	2,844	5,643	379	1,183	62,401
	\$	\$	\$	\$	\$	\$	\$	\$
Accumulated Depreciation								
Balance, January 1, 2019	-	166	-	-	574	-	27	767
Depreciation	-	300	-	10	608	5	27	950
Balance, December 31, 2019	-	466	-	10	1,182	5	54	1,717
Depreciation	-	220	-	169	450	35	186	1,060
Balance, June 30, 2020	-	686	-	179	1,632	40	240	2,777
	\$	\$	\$	\$	\$	\$	\$	\$
Net Book Value								
Balance, December 31, 2019	3,800	15,247	31,037	2,505	4,046	327	962	57,924
Balance, June 30, 2020	3,800	15,459	32,407	2,665	4,011	339	943	59,624

Decibel owns a cannabis manufacturing, processing and extraction facility located in Calgary, Alberta, Canada. The facility is comprised of 15,000 square feet that has been retrofitted and an additional 45,000 square feet of additional capacity for expansion.

Decibel is constructing a greenfield build of a large-scale cannabis production facility located in Battleford, Saskatchewan, Canada, referred to as the Thunderchild Cultivation Facility. The first phase is comprised of an 80,000 square feet cannabis indoor cultivation facility. As at June 30, 2020, construction costs were capitalized as construction in progress assets. For the three and six months ended June 30, 2020, the Company has capitalized \$142 and \$224, respectively (2019 - \$nil and \$nil) of interest relating to financing for its Thunderchild Cultivation facility construction in progress assets. Refer to Note 9 for further details on the financing. No depreciation for these assets has yet been recognized as the facility is still under production and not in use.

The Company is developing a mezzanine space and amounts are capitalized as construction in progress assets. No depreciation has yet been recognized as the development is still ongoing and the assets are not available for use.

During the three and six months ended June 30, 2020, depreciation related to equipment was capitalized as part of production costs within inventory amounting to \$214 and \$419, respectively (2019 - \$231 and \$415).

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

9. Loans

Type of loan	Maturity date	June 30, 2020	December 31, 2019
		\$	\$
North Battleford construction loan	December 1, 2021	14,703	12,333
We Grow term loan	December 1, 2021	4,652	4,656
Highfield Calgary acquisition term loan	December 1, 2021	3,702	3,705
Highfield Calgary improvement term loan	December 1, 2021	2,589	2,591
Equipment term loan	December 1, 2021	969	1,105
		26,615	24,390
Current portion		3,722	1,621
Long-term		22,893	22,769

On December 20, 2019, with subsequent amendments on May 22, 2020, Decibel entered in to an amended credit agreement with ATB Financial (“ATB”) to replace the previous credit facility arrangements that were in place.

The agreement provides for six facilities (the “Facility” or “Facilities”) as detailed below. Financing fees of \$271 have been capitalized as borrowing costs, on a prorated basis against each of the term loan balances and are being accreted over the loan terms. For the three and six months ended June 30, 2020, accretion of \$50 and \$94 (2019 - \$nil and \$nil) has been recognized in the condensed consolidated interim statements of comprehensive income (loss).

The agreement matures on December 1, 2021. The credit agreement is subject to interest rates on the prime rate loans as well as fees on the bankers acceptances, letters of credit and standby charges all of which are based on a prescribed scale in the agreement that varies with the Company’s ratio of funded debt to annualized earnings before interest, taxes, depreciation and amortization. The blended rates and fees in effect for the three and six months ended June 30, 2020, were 5.2% and 6.0% interest (2019 – nil% and nil%), 4.25% and 4.25% stamping fees (2019 – nil% and nil%) and 0.8% and 0.8% standby fees (2019 – nil% and nil%), respectively.

The credit agreement security consists of a registered first charge mortgage of \$35.0 million on the lands, other than the North Battleford facility lands which are leased, a tri-partite agreement made between the North Battleford facility land lessor, the Company and the lender as well as first ranking security interest on all of the Company’s material contracts.

i. North Battleford construction and term facility

North Battleford construction facility

This construction Facility provided for the refinancing of the previous credit agreement development loan, in the form of a non-revolving term loan up to \$15.5 million available by way of multiple monthly draws to finance the construction of the Thunderchild Cultivation facility. Further details on the construction project can be found in Note 8.

At June 30, 2020, \$14.8 million (December 31, 2019 - \$12.3 million) was drawn on this Facility by way of prime rate loans. Upon completion of the construction, this loan can be paid in full or can be refinanced by means of the North Battleford Term Facility referred to below. Payments under this Facility are required as monthly interest installments with blended installments of principal and interest commencing September 30, 2020, until the repayment of the full principal upon the maturity date, or the refinancing with the North Battleford Term Facility. The loan is subject to an amortization period of five years.

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

9. Loans (continued)

North Battleford term facility

This term Facility provides for a one-time draw in the form of a non-revolving term loan, to refinance the North Battleford Construction Facility up to the maximum \$15.5 million.

At June 30, 2020, \$nil was drawn on this Facility. Payments under this Facility are required as quarterly blended installments of principal and interest commencing September 30, 2020. The loan is subject to an amortization period of five years.

ii. We Grow term facility

This loan Facility provides for a non-revolving term loan up to \$4.7 million by way of a single draw to be used for general corporate purposes.

At June 30, 2020, \$4.7 million (December 31, 2019 - \$4.7 million) was drawn on this Facility by way of a prime rate loan. Payments under this Facility are required as quarterly interest installments commencing March 31, 2020, with blended installments of principal and interest commencing September 30, 2020. The loan is subject to an amortization period of five years.

iii. Highfield Calgary Acquisition Term facility

This loan Facility provides for a refinancing of amounts under the previous credit agreement term loan, of which the funds were previously drawn and used towards the purchase of The Plant property, in the form of a non-revolving \$3.8 million prime rate term loan. Further details on the property can be found in Note 8.

At June 30, 2020, \$3.7 million (December 31, 2019 - \$3.7 million) was drawn on this Facility. Payments under this Facility are required as quarterly interest installments commencing March 31, 2020, with blended installments of principal and interest commencing September 30, 2020. The loan is subject to an amortization period of ninety-three months.

iv. Highfield Calgary improvement term facility

This loan Facility provides for a refinancing of the previous credit agreement leasehold improvement loan, in the form of a non-revolving term loan equal to the previously fully drawn loan amount of \$2.6 million.

At June 30, 2020 \$2.6 million (December 31, 2019 - \$2.6 million) was drawn on this Facility by way of prime rate loans. Payments under this Facility are required as monthly interest installments commencing January 31, 2020, with blended installments of principal and interest commencing September 30, 2020. The loan is subject to an amortization period of seventy-four months.

v. Equipment term facility

This loan Facility provides for a refinancing of the previous credit agreement equipment finance term loan, in the form of a non-revolving term loan up to \$1.1 million.

At June 30, 2020, \$980 (December 31, 2019 - \$1.1 million) was drawn on this Facility by way of prime rate loans. Payments under this Facility are required as monthly blended installments of principal and interest commencing January 31, 2020. The loan is subject to an amortization period of forty-six months.

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

9. Loans (continued)

vi. North Battleford second phase facility

This loan Facility provides for an additional borrowing amount up to \$13.5 million to be used towards the second phase of construction of the Thunderchild Cultivation facility (refer to Note 8), upon obtainment of the cultivation license and additional lender approval.

vii. Financial covenants

The credit agreement defines earnings before interest, depreciation and amortization (“EBITDA”) to be further adjusted for any non-cash items, extraordinary and non-recurring cash losses not in the ordinary course of business, unfunded capital expenditures, distributions paid as well as other non-recurring items as approved by the lender.

The credit agreement is subject to financial covenants as follows:

a. Minimum EBITDA

The Company must not permit its year-to-date earnings before interest, tax, depreciation and amortization (“EBITDA”) to be less than:

\$300 for the fiscal quarters ending June 30, 2020 and March 31, 2020;
\$900 for the fiscal quarters ending September 30, 2020 and June 30, 2020 and March 31, 2020; and
\$2.5 million for the fiscal year ending December 31, 2020.

b. Total funded debt to EBITDA ratio

Commencing on the fiscal quarter ending March 31, 2021, the Company shall not permit the total funded debt to annualized EBITDA ratio to be greater than:

3.75:1.00 for the fiscal quarter ending March 31, 2021; and
2.50:1.00 for the fiscal quarter ending June 30, 2021 and all fiscal quarters thereafter.

For the fiscal quarter ending March 31, 2021, through to the fiscal quarter ending September 30, 2021, EBITDA shall be annualized using the March 31, 2021, fiscal quarter as its first quarterly period in the annualized calculation. For the fiscal quarter ending December 31, 2021 and subsequent, the annualized EBITDA will be calculated on a rolling four-quarter basis.

c. Current ratio

The Company shall not permit the current ratio, defined as the current assets ratio to current liabilities as presented on the condensed consolidated interim statements of financial position, calculated quarterly on the last day of each fiscal quarter to fall below 1:25:1.00.

d. Fixed charge coverage ratio

Commencing on the fiscal quarter ending March 31, 2021, the Company shall not permit the fixed charge coverage ratio to fall below 1.25:1.00. The fixed charge coverage ratio is defined as the ratio of cash flow available for fixed charges to fixed charges. Cash flow available for fixed charges is defined as annualized EBITDA. Fixed charges are defined as interest expense payable in cash as at the date of the quarter end calculation plus the aggregate of all schedule principal payments of debt, excluding accounts payable and payroll or other liability accruals in the ordinary course of business, during the quarter reporting period.

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

9. Loans (continued)

vi. Financial covenants (continued)

d. Fixed charge coverage ratio (continued)

For the fiscal quarter ending March 31, 2021, through to the fiscal quarter ending September 30, 2021, EBITDA shall be annualized using the March 31, 2021, fiscal quarter as its first quarterly period in the annualized calculation. For the fiscal quarter ending December 31, 2021 and subsequent, the annualized EBITDA will be calculated on a rolling four-quarter basis.

e. Minimum liquidity

Commencing May 31, 2020, the Company must not permit its cash and cash equivalents to be less than a minimum monthly stipulated balance ranging from \$1.2 million to \$3.1 million throughout the months of May through December of 2020.

The Company has met its covenant requirements for the three and six months ended June 30, 2020.

vii. Standby fees

The credit agreement Facilities, with the exception of the equipment term facility, are subject to standby fees on undrawn amounts at a rate referenced above and are paid monthly. The Company paid standby fees in the amount of \$5 and \$9 for the three and six months ended June 30, 2020, respectively (2019 - \$nil and nil).

viii. Default events

The May 22, 2020, credit facility amendments included a default event if the Company fails to obtain certain licenses or amendments to licenses on or before September 1, 2020, September 30, 2020 and April 1, 2021, respectively. There are no default events as at June 30, 2020 and the September 1, 2020, licensing requirement was satisfied subsequent to the period ended June 30, 2020 with the obtainment of The Plant's license sales amendment.

10. Convertible debentures

	Convertible debentures debt component	Convertible debentures equity conversion feature	Convertible debentures warrants
	\$	\$	\$
Balance, January 1, 2019	9,849	1,938	32
Accretion	29	-	-
Balance, December 31, 2019	9,878	1,938	32
Accretion	371	-	-
Balance, June 30, 2020	10,249	1,938	32

On May 10, 2019, Decibel Cannabis Company Inc. issued 12,000 convertible debenture units (the "Units") at a price of \$1,000 dollars per Unit. Each Unit consisted of one 9.5% senior unsecured convertible debenture (each a "Convertible Debenture") of the Company having a principal amount of \$1,000 dollars and 385 common share

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

10. Convertible debentures (continued)

purchase warrants of the Company (each a “Warrant”). The Convertible Debentures will mature and be repayable on May 10, 2022. Interest is computed on the basis of a 360-day year composed of twelve 30-day months. Interest accrues at the rate of 9.5% per annum payable in arrears on the last business day of June and December of each year commencing June 28, 2019. The Convertible Debentures are convertible into common shares at a conversion price of \$0.45 per share, subject to adjustment in certain events, and certain anti-dilution provisions. If the holder elects to convert the convertible debenture after a period that is eighteen months and one day following the closing date, the holder will also receive the elective interest, being an amount equal to the interest the holder would have received if the holder had held the convertible debentures until maturity payable at the Company’s option in cash and/or common shares. Each Warrant to acquire one common share will be exercisable for a period of thirty-six months at an exercise price of \$1.65 per Warrant.

11. Share capital and reserves

(a) Common shares issued and outstanding

The Decibel Cannabis Company Inc. is listed on the TSX-V under the trading symbol “DB”.

	Number of shares	Share capital
	#	\$
Balance, January 1, 2019	57,200,003	12,179
Share issuance	150,000	300
Promissory notes extinguishment	6,563,460	1,469
Private placement	8,515,271	1,787
Warrants on private placement	-	(289)
Share issuance costs, net of tax	-	(25)
Amalgamation - conversion of We Grow units	126,428,410	-
Business combination	143,647,114	26,575
Exercise of restricted share units	1,068,913	200
Balance, December 31, 2019	343,573,171	42,196
Exercise of restricted share units (i)	4,559,535	770
Balance, June 30, 2020	348,132,706	42,966

- i. Decibel issued a total of 4.6 million shares pertaining to exercises of restricted share units. Refer to Note 11(d) for further details.

Escrowed shares

Common shares held by the Company’s founders and the Company’s largest shareholder, Thunder Developments Inc., are held in escrow under a staged release schedule which, was initially over a thirty-six month period that commenced January 7, 2019, and which, was decreased to an eighteen-month period from January 7, 2019, in connection with the Company’s graduation from a Tier 2 to Tier 1 issuer status on the TSX-V. In addition, the Company’s common shares issued to former holders of We Grow common shares, pursuant to the Arrangement, are held in escrow over a twelve-month staged release which commenced on December 20, 2019. Total escrowed shares at June 30, 2020, amount to 121.8 million shares.

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

For the three and six months ended June 30, 2020 and 2019

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

11. Share capital and reserves (continued)

(b) Warrants issued and outstanding

	Financing warrants #	Performance warrants #	Total #	Weighted average exercise price \$/share
January 1, 2019	-	-	-	-
Acquired in business combination	22,217,869	1,015,000	23,232,869	1.303
Issued - promissory notes extinguishment	3,281,730	-	3,281,730	0.280
Issued - private placement	4,257,636	-	4,257,636	0.280
December 31, 2019	29,757,235	1,015,000	30,772,235	1.055
June 30, 2020	29,757,235	1,015,000	30,772,235	1.055
Weighted average exercise price \$/share	1.084	0.134	1.055	n/a

Expiry date	Number of warrants #	Number vested and exercisable #	Exercise price \$/share \$
March 29, 2020	156,240	156,240	0.750
December 28, 2020	250,000	-	0.500
December 28, 2020	379,705	-	0.850
December 28, 2020	765,000	-	0.001
December 28, 2020	2,941,176	-	1.300
December 28, 2020	1,419,416	-	0.850
December 28, 2020	12,055,177	-	1.300
December 28, 2020	4,620,000	-	1.650
December 19, 2021	7,539,366	-	0.280
December 19, 2021	646,155	-	2.130
	30,772,235	156,240	1.055

Fair value

At the time of grant, the fair value of warrants are estimated using the Black-Scholes valuation model.

Share-based compensation expense recognized in the condensed consolidated interim statements of comprehensive income (loss) for the three and six months ended June 30, 2020, was \$47 and \$108, respectively (2019 - \$nil and \$nil).

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

For the three and six months ended June 30, 2020 and 2019

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

11. Share capital and reserves (continued)

(c) Stock options

	Number of options	Weighted average exercise price \$/share	Fair Value
	#	\$	\$
Outstanding, January 1, 2019	1,818,750	0.85	n/a
Issued	3,410,000	2.00	5,226
Forfeited	(225,000)	0.09	n/a
Cancellation of We Grow stock options	(5,003,750)	1.60	n/a
Reissuance of We Grow stock options	21,335,990	0.39	n/a
Acquired in business combination	3,014,400	0.50	28
December 31, 2019	24,350,390	0.40	n/a
Issued (i)	16,648,001	0.09	623
Forfeited (ii)	(3,173,150)	0.43	n/a
June 30, 2020	37,825,241	0.26	n/a

i. The Decibel Cannabis Company Inc. stock option plan includes grants to officers, directors, employees and consultants. Each stock option entitles the holder to one common share issuable at the exercise price with a straight-line vesting period over either a three-year term or thirty-month term.

ii. A total of 3.2 million stock options were forfeited during the six months ended June 30, 2020.

The Company may issue up to 65.9 million common shares under its combined stock option and restricted share unit plans of which a total of 49.2 million shares instruments have been issued pursuant to the plans.

Expiry date	Number of options	Number vested and exercisable	Exercise price \$/share
	#	#	\$
November 1, 2022	1,599,000	1,279,200	0.09
January 8, 2023	2,398,500	1,599,000	0.24
April 10, 2023	1,758,900	1,279,200	0.24
January 1, 2024	14,220,440	4,740,144	0.47
December 4, 2023	1,200,400	1,200,400	0.50
June 24, 2025	16,648,001	-	0.09
	37,825,241	10,097,944	0.26

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

For the three and six months ended June 30, 2020 and 2019

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

11. Share capital and reserves (continued)

(c) Stock options (continued)

Fair value

At the time of grant, the fair value of stock options are estimated using the Black-Scholes valuation model.

The valuation model assumptions for the stock options granted during the three and six months ended June 30, 2020, were as follows:

	Three months ended June 30, 2020	Six months ended June 30, 2019
Volatility	55% - 92%	55% - 92%
Risk-free interest rate	0.26% - 0.32%	0.26% - 0.32%
Weighted average exercise price	\$0.09	\$0.09
Expected life	5 years	5 years
Dividend yield	Nil	Nil
Forfeiture rate	Nil	Nil
Share price	\$0.09	\$0.09

Share compensation expense recognized in the condensed consolidated interim statements of comprehensive income (loss) for the three and six months ended June 30, 2020, was \$812 and \$1.5 million, respectively (2019 - \$215 and \$288).

(d) Restricted share units

The Company has a Restricted Share Unit (“RSU”) plan for directors, officers, employees or affiliates of Decibel (“RSU Participants”). Each RSU entitles the RSU Participant to one common share or cash payment at the option of the Company with a straight-line vesting period over a one-year term for directors and up to a three-year term for all other participants. The RSU is exercisable at the option of the holder. The Company may issue up to 65.9 million common shares under its combined stock option and RSU plans of which a total of 49.2 million shares instruments have been issued pursuant to the plans.

	Outstanding	Weighted average issue price
	#	\$
January 1, 2019	-	-
Acquired in business combination	9,875,043	0.82
Exercised	(1,068,513)	0.85
December 31, 2019	8,806,530	0.81
Granted	78,500	0.15
Exercised	(4,559,535)	0.19
June 30, 2020	4,325,495	0.81

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

For the three and six months ended June 30, 2020 and 2019

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

11. Share capital and reserves (continued)

(d) Restricted share units (continued)

Expiry date	Number of units	Number vested and exercisable
	#	\$
October 3, 2021	340,000	340,000
January 1, 2022	210,000	210,000
May 16, 2022	960,000	960,000
July 3, 2022	90,909	68,181
October 3, 2022	1,283,750	-
January 1, 2023	75,000	-
April 3, 2023	566,669	225,003
May 6, 2023	215,000	110,001
January 1, 2024	505,667	126,334
January 28, 2025	28,500	-
February 18, 2025	50,000	-
	4,325,495	2,039,519

Fair value

The fair value estimate associated with RSU's at the grant date, is expensed in the condensed consolidated interim statements of comprehensive income (loss) over the vesting period. RSU's are measured at their intrinsic fair value on the date of the grant based on the closing price of the Company's shares on that date.

The key items pertaining to the fair value calculation for grants and their resulting share compensation recognition that occurred in the three and six months ended June 30, 2020, were as follows:

	Three months ended June 30, 2020	Six months ended June 30, 2019
Expected life	1 - 3 years	1 - 3 years
Share price	\$0.15	\$0.15

Share compensation expense recognized in the condensed consolidated interim statements of comprehensive income (loss) for the three and six months ended June 30, 2020, was \$215 and \$444, respectively (2019 - \$nil and \$nil).

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

11. Share capital and reserves (continued)

(e) Other shared-based compensation

On May 22, 2020, the Company terminated the consulting services agreement. Refer to Note 20 for further details on this commitment and the termination.

For the three and six months ended June 30, 2020, the Company recognized a recovery of previously expensed share-based compensation, due to the forfeitures arising from the agreement termination, of \$348 and \$243, respectively (2019 - \$nil and \$nil) related to shares that will no longer be issued under the terms of the consulting services agreement with the third party.

A total of 909,090 shares have been issued as at June 30, 2020, in relation to this agreement.

(f) Share-based compensation expense

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

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
	\$	\$	\$	\$
Stock options	812	215	1,471	288
Restricted share units	215	-	444	-
Other	(348)	-	(243)	-
Warrants	47	-	108	-
Total	726	215	1,780	288

12. Revenue

The Company's revenue is comprised of wholesale sales of both products and services through its production facilities to distributors and licensed cannabis producers as well as the direct sale of products through the Company's retail locations to end customers.

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

The estimated variable consideration is based on historical experience and management's expectation of future returns and price adjustments. At June 30, 2020, the return liability for the estimate of future returns and price adjustments was \$46 (December 31, 2019 - \$102) and is included in accounts payable and accrued liabilities on the condensed consolidated interim statements of financial position.

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
	\$	\$	\$	\$
Wholesale revenue	2,584	1,590	5,235	2,178
Retail revenue	3,837	-	6,646	-
Total	6,421	1,590	11,881	2,178

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

For the three and six months ended June 30, 2020 and 2019

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

13. Expenses by nature

Expenses are presented on the condensed consolidated interim statements of comprehensive income (loss) using a classification based on the functions “cost of goods sold” and “selling, general and administration”. The Company also presents other material expenses separately as they were deemed to be items of a dissimilar function.

Refer to Note 14 and Note 15 for further details on the disaggregated items included in the functional presentation.

14. Finance costs

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
	\$	\$	\$	\$
Interest convertible debentures	285	-	570	-
Accretion convertible debentures	200	-	371	-
Accretion leases	93	-	190	1
Interest term loan and equipment loan debt	71	-	494	-
Accretion financing fees	50	-	94	-
Interest related-party loan	-	4	-	9
Total	699	4	1,719	10
	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
	\$	\$	\$	\$
Cash finance costs				
Interest convertible debentures	285	-	570	-
Interest term loan and equipment loan debt	71	-	494	-
Interest related party loan	-	4	-	9
	356	4	1,064	9
Non-cash finance costs				
Accretion convertible debentures	200	-	371	-
Accretion leases	93	-	190	1
Accretion financing fees	50	-	94	-
	343	-	655	1

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

15. Selling, general and administration expenses

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
			\$	\$
Salaries and wages	1,213	140	2,708	214
Office and general	1,042	153	1,907	241
Consulting fees	171	(16)	297	18
Marketing and branding	78	19	231	123
Travel and accommodation	57	(3)	146	33
Selling costs	54	106	194	118
Professional fees	43	20	124	40
Total	2,658	419	5,607	787

The Company was eligible to receive certain subsidy amounts under the Canada Emergency Wage Subsidy (“CEWS”) assistance program that the Government of Canada provided to assist business with employee costs during the COVID-19 pandemic. During the three and six months ended June 30, 2020, amounts of \$225 and \$225, respectively (2019 - \$nil and \$nil) were recognized as reductions to the salaries and wages line item within the selling, general and administration expenses presented on the condensed consolidated interim statements of comprehensive income (loss).

16. Earnings per share

Income (loss) per share represents the income (loss) attributable to common shareholders divided by the weighted average number of common shares outstanding during the period.

Diluted income (loss) per share is calculated by dividing the income (loss) by the sum of the weighted average number of common shares outstanding as well as all additional common shares that would have been outstanding if potentially dilutive outstanding shares instruments had been issued as common shares during the period.

For the three months ended June 30, 2019, there were 3,466,250 outstanding shares instruments that were anti-dilutive and were not included in the dilutive income per share as presented. The other periods presented in the condensed consolidated interim statements of comprehensive income (loss) reported a net loss and comprehensive loss and, as such, the applicable outstanding shares instruments are considered anti-dilutive.

17. Segmented information

(a) Reportable segments

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

(b) Geographic information

All revenues were generated in Canada for the three months ended March 31, 2020 and 2019. All property, plant and equipment and intangible assets are located within Canada.

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

For the three and six months ended June 30, 2020 and 2019

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

17. Segmented information (continued)

(c) Major customers

For the three months ended June 30, 2020, two customers represented approximately 75.0% of the Company's net wholesale revenue (2019 – 70.6% two customers). These customers are all governmental authorities.

For the six months ended June 30, 2020, three customers represented approximately 84.0% of the Company's net wholesale revenue (2019 – 61.2% two customers). These customers are all governmental authorities.

18. Supplemental cash flow disclosures

The changes in non-cash working capital items are as follows:

	Six months ended June 30, 2020	Six months ended June 30, 2019
Accounts receivable	\$ (854)	\$ (582)
Other current assets	(52)	104
Biological assets	(3,179)	-
Inventory	659	(1,579)
Other long-term assets	(93)	-
Accounts payable and accrued liabilities	(512)	518
Total	(4,031)	(1,539)
	\$	\$
Working capital change relating to operating activities	(1,652)	(1,539)
Working capital change relating to investing activities	(2,379)	-
Total	(4,031)	(1,539)

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

18. Supplemental cash flow disclosures (continued)

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:

	Six months ended June 30, 2020	Six months ended June 30, 2019
	Financing liabilities (a)	Financing liabilities (a)
	\$	\$
Balance at January 1, 2020 and 2019 (b)	40,547	-
Cash changes:		
Proceeds from term loans	2,383	-
Proceeds from issuance of promissory notes	-	1,000
Financing fees paid	(117)	-
Repayment of equipment loan	(128)	-
Repayment of lease liabilities	(364)	(8)
Repayment of term loans	(135)	-
Non-cash changes:		
Accretion financing charges	94	-
Accretion convertible debentures	371	-
Discounted interest on promissory notes	-	(89)
Adoption of IFRS 16 leases, net of accretion	-	53
Lease liability valuation adjustments, net of accretion	(303)	-
	42,348	956

(a) Includes current and long-term portions.

(b) Comprised of lease liabilities, equipment loan, term loan debt and convertible debentures.

19. Financial instruments and risk management

Fair value of financial instruments

The Company's financial instruments consist of cash, accounts receivable, investments, accounts payable and accrued liabilities, equipment loan, long-term debt and convertible debentures. The carrying values of these financial instruments, excluding the long-term debt and the convertible debentures, approximate their fair values as at June 30, 2020, given that they are short-term in nature. The carrying value of the long-term debt approximates its fair value as they bear floating rates of interest. The fair value of the convertible debentures as at June 30, 2020, was \$3.0 million.

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.

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

19. Financial instruments and risk management (continued)

Fair value of financial instruments (continued)

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

(a) 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.

The investments consist mainly of guaranteed investment certificates held with banks with high credit ratings assigned by international credit-rating agencies. Management believes the risk of loss is low.

Accounts receivable consists of goods and services taxes recoverable ("GST") and other cash-based tax incentives, as well as amounts owing from customers for wholesale product. Credit risk associated with the GST and the tax incentives receivable balances is minimal due to the nature of the amounts. The Company evaluates the credit worthiness of the customer counterparties before credit is granted.

(b) 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 21 for further details on the going concern assumption and capital management, respectively.

In the absence of any commitments as outlined in Note 20, the Company has the following contractual obligations:

	Total	<1 year	1-3 years	4-5 years	5-10 years	> 10 years
Accounts payable and accrued liabilities	\$ 7,601	\$ 7,601	\$ -	\$ -	\$ -	\$ -
Current portion of lease liabilities	881	881	-	-	-	-
Current portion of equipment loan	201	201	-	-	-	-
Current portion of long-term debt	5,107	5,107	-	-	-	-
Long-term lease liabilities	4,062	-	1,798	997	267	1,000
Long-term debt	23,665	-	23,665	-	-	-
Convertible debentures (i)	14,122	1,140	12,982	-	-	-
Total	55,639	14,930	38,445	997	267	1,000

(i) Assumes the principal balance of the debentures outstanding at June 30, 2020, remains unconverted and includes the interest payments until the maturity date.

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

19. Financial instruments and risk management (continued)

(b) Liquidity risk (continued)

	June 30, 2020	December 31, 2019
	\$	\$
Trade payables	5,878	4,008
Accrued liabilities	1,334	3,925
Payroll liabilities	389	180
Total	7,601	8,113

(c) Market risk

Currency risk

The operating results and financial position of the Company are reported in Canadian dollars. The Company may work with US-sourced vendors and suppliers resulting in exposure to foreign currency exchange translation gains and losses.

The Delaware subsidiary, Westleaf International Inc. (“WII”), is subject to foreign exchange translation differences on any of its operating costs which are invoiced in US dollars. WII’s most significant expenses are comprised of payroll costs for which all the employee agreements are Canadian dollar-based with no foreign currency risk associated.

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 term loans, which bear floating rates of interest, would result in an estimated annual impact to profit or loss of \$266.

Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company currently holds no instruments that are susceptible to price risk arising from uncertainties about their future values.

20. Commitments and contingencies

Consulting services agreement

On June 3, 2019, Decibel entered into an exclusive consulting services agreement with a third party whereby they provided various consultative services surrounding the design, buildout and operations of the extraction, processing and manufacturing facility. The consideration consisted of six monthly fixed-fee service-based cash payments estimated at \$138 as well as share-based payments to occur over three tranches beginning on July 3, 2019 and each of the two subsequent one-year anniversaries thereafter.

For the three and six months ended June 30, 2020, service-based amounts of \$105 and \$135 were paid or payable by Decibel (2019 - \$6 and \$6).

DECIBEL CANNABIS COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

20. Commitments and contingencies (continued)

Consulting services agreement (continued)

The shares to be issued over the three tranches approximated \$1 million in total compensation and the quantity of shares to be issued was to be determined by dividing the equivalent dollar amount to be received under the tranche by the five-day weighted average calculation preceding each of the issuance dates. Refer to Note 11(e) for details on shares issued and share-based compensation recorded for the three and six months ended June 30 31, 2020.

Effective May 5, 2020, the Company terminated the agreement and ceased any future committed amounts.

Equipment purchases

The Company is committed to payments of \$190 pertaining to equipment purchases for the production facilities currently in the process of being manufactured or delivered by various suppliers.

Commissions

The Company had a manufacturer's representative agreement with a third party, which entailed a commission payable in the amount of 7.0% of net sales of the We Grow entity in exchange for national sales agency related services. The contract was entered into on July 30, 2018 and was valid for three years until December 31, 2021. On April 30, 2020, the Company terminated the agreement.

Legal claims

The Company may become defendants in legal actions taken against the Company. Decibel is not aware of any material or significant claims against the Company.

21. Capital management

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

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

The Company defines capital as total equity and debt financing. As at June 30, 2020, the Company's total capital of \$80.0 million (December 31, 2019 - \$76.7 million) consisted of an equipment loan, current and long-term debt, convertible debentures as well as share capital.

As disclosed in Note 9, the Company's debt financing is subject to financial covenants. As at June 30, 2020, the Company is in compliance with all covenants. As at June 30, 2020, the Company is not subject to externally imposed capital requirements.