

DECIBEL CANNABIS COMPANY INC.

Consolidated Financial Statements

For the years ended December 31, 2024 and 2023
(In Canadian Dollars)

To the Shareholders of Decibel Cannabis Company Inc.:

Opinion

We have audited the consolidated financial statements of Decibel Cannabis Company Inc. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2024, and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS[®] Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Acquisition of AgMedica BioScience Ltd.

Key Audit Matter Description

As described in Note 4, during the year ended December 31, 2024, the Company completed the acquisition of AgMedica BioScience Ltd. ("AgMedica"). This transaction was conducted in accordance with an Approval and Reverse Vesting Order granted as part of Atlas Global Brands Inc.'s ("Atlas") Companies' Creditors Arrangement Act (CCAA) process, which involved Atlas and its subsidiaries, including AgMedica.

The identifiable assets acquired and the liabilities assumed are measured at fair value as of the acquisition date. Where the net of the fair value of the assets acquired and liabilities assumed is greater than the fair value of consideration transferred, the difference is accounted for as a gain on the consolidated statement of income (loss) and comprehensive income (loss).

Auditing the acquisition was complex due to the subjective nature of estimating the fair values of identified assets and liabilities and consideration paid as at the date of the acquisition, including assessing the methodologies and assumptions used by management within the calculation.

Changes to the significant assumptions could have a significant impact on the fair value of acquired assets and liabilities and consideration paid. Accordingly, we considered this to be a key audit matter.

Audit Response

We responded to this matter by performing audit procedures in relation to the acquisition of AgMedica. Our audit work in relation to this included, but was not restricted to, the following:

- Analyzed the acquisition agreements to obtain an understanding of the key terms and conditions to identify the necessary accounting considerations and identification of assets, liabilities, and equity acquired;
- With the assistance of our valuation specialists, we evaluated the reasonableness of the Company's valuation model, through assessing the appropriateness of the valuation method and the reasonableness of various inputs utilized, including the consideration paid;
- Evaluated management's process for developing the fair value estimates, evaluated the model for determining costs to sell, undertook sensitivity analysis, tested the completeness, accuracy and relevance of the underlying data used in the calculation, evaluated the significant assumptions used by management in determining the stage of growth of cannabis, harvest costs, processing costs, sales prices and expected yields;
- Undertook physical observation of the growing cannabis, as well as examined source documentation for sales transactions subsequent to year end and harvest documentation and data with respect to yields;
- Involved internal and external valuation professionals with specialized skills and knowledge, who assisted in the assessing the appropriateness of the fixed assets valuation methodologies utilized and the reasonableness of valuation assumptions applied;
- Tested the reasonableness of key assumptions used by management, including forecasted revenues and operating costs, by comparing the available third party published economic data and historical trends, as applicable; and
- Assessed the adequacy of the Company's disclosure included in the consolidated financial statements.

Valuation of Biological Assets and Inventory

Key Audit Matter Description

Biological assets are measured at fair value less costs to sell and costs to complete. Inventory is measured at the lower of cost and net realizable value. In estimating the fair value of biological assets, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, expected yield, harvesting costs, selling costs, selling price, and the allocation of indirect costs. In estimating the fair value of final inventory values, management is required to determine an estimate of spoiled or expired inventory. Refer to Notes 2, 3, 6 and 7 of the consolidated financial statements for further details.

We identified valuation of biological assets and inventory as a key audit matter, as a high degree of auditor judgment was required to evaluate the significant assumptions and estimates made by management.

Audit Response

We responded to this matter by performing procedures in relation to the valuation of biological assets and inventory. Our audit work in relation to this included, but was not restricted to, the following:

- Performed a physical observation of the year-end biological assets and inventory, validating the stage of growth of biological assets;
- Performed physical observations of the cannabis production cycle at the Company's facilities throughout the year;
- Tested on a sample basis the value and classification of costs as either harvesting costs, production costs, selling costs, or indirect costs;
- Tested the allocation of indirect costs on a sample basis by assessing the appropriateness of the allocation method, cost drivers and other estimates;
- Evaluated the appropriateness of the selling price per gram by comparing it to market data;

- Evaluated the appropriateness of the expected yield by reperforming weigh-ins of dried grams of cannabis harvested and assessing historical data on yield per plant for each strain;
- Performed sensitivity analyses over unobservable inputs used to determine the fair value of biological assets to assess the impact of changes in those significant unobservable inputs on the Company's determination of fair value;
- Assessed the measurement of inventory by verifying that the inventory was valued at the lower of cost and net realizable value and by assessing the provision for slow-moving inventory based on its age and likelihood of sale;
- Evaluated the reasonableness of the expected net selling prices based on actual sales made and the required costs to sell the inventory; and
- Assessed the appropriateness of the disclosures in the notes to the consolidated financial statements.

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Other Matter

The consolidated financial statements for the year ended December 31, 2023 were audited by another auditor who expressed an unmodified opinion on those statements on April 29, 2024.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Company as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Elena Ruttan.

Calgary, Alberta

April 21, 2025

MNP LLP

Chartered Professional Accountants

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

December 31,	Notes	2024	2023
(thousands of Canadian dollars)			
Assets			
Current assets			
Cash		6,997	3,481
Accounts receivable	5	11,786	13,664
Other current assets	9	2,419	3,742
Biological assets	6	1,541	1,891
Inventory	7	41,795	48,705
		<u>64,538</u>	<u>71,483</u>
Property, plant and equipment	8	70,056	55,577
Right-of-use assets	13	10,589	8,148
Other long-term assets	9	5,685	2,993
Intangible assets	11	990	527
Goodwill	12	-	4,259
		<u>151,858</u>	<u>142,987</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	25	38,195	45,023
Current portion of lease liabilities	13	1,878	1,481
Current portion of long-term debt	14	8,767	8,616
Other current liabilities	16	221	1,568
		<u>49,061</u>	<u>56,688</u>
Long-term lease liabilities	13	8,218	6,070
Long-term debt	14	29,459	32,348
Other long-term liabilities		405	1,685
		<u>87,143</u>	<u>96,791</u>
Shareholders' equity			
Share capital	15	63,225	54,078
Reserves	16	16,208	16,299
Deficit		(14,718)	(24,181)
		<u>64,715</u>	<u>46,196</u>
		<u>151,858</u>	<u>142,987</u>
Commitments and contingencies (Note 26)			
Subsequent events (Note 28)			

Approved on behalf of the board:

<u>"Nadia Vattovaz"</u>	<u>"Shawn Dym"</u>
Signed: Director	Signed: Chairman

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

DECIBEL CANNABIS COMPANY INC.

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

Year ended December 31,	Notes	2024	2023
(thousands of Canadian dollars, except share and per share amounts)			
Revenue			
Gross revenue	17	140,498	177,682
Excise taxes	17	(47,961)	(71,458)
Net revenue	17	92,537	106,224
Cost of goods sold	7	48,182	57,686
Gross profit before fair value adjustments		44,355	48,538
Unrealized gain on changes in fair value of biological assets	6	10,792	12,549
Change in fair value of biological assets realized through inventory sold	7	(17,570)	(22,321)
Gross profit		37,577	38,766
Selling, general and administration	19	31,419	33,939
Depreciation and amortization	8, 11, 13	5,036	2,477
Share-based (recovery) compensation	16	(877)	1,365
		35,578	37,781
Income from continuing operations		1,999	985
Non-operating items:			
Finance costs	18	2,902	2,781
Foreign exchange loss		239	477
Gain on acquisition of AgMedica Bioscience Inc.	4	(16,041)	-
Other income		1,305	(360)
Income (loss) before income taxes		13,594	(1,913)
Current income taxes	22	-	-
Deferred incomes taxes		-	-
		-	-
Net income (loss) and comprehensive income (loss) from continuing operations		13,594	(1,913)
Net (loss) income and comprehensive (loss) income from discontinued operations	10	(4,131)	143
Net income (loss) and comprehensive income (loss)		9,463	(1,770)
Income (loss) per share from continuing operations			
Basic income (loss) per share from continuing operations	20	0.03	(0.01)
Diluted income (loss) per share from continuing operations	20	0.03	(0.01)
(Loss) income per share from discontinued operations			
Basic (loss) income per share from discontinuing operations	20	(0.01)	-
Diluted (loss) income per share from discontinuing operations	20	(0.01)	-
Weighted average number of shares outstanding			
Basic	20	425,455,780	408,132,762
Diluted	20	425,961,115	408,132,762

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

DECIBEL CANNABIS COMPANY INC.

Consolidated Statements of Changes in Equity

For the year ended December 31, 2024 and 2023

(thousands of Canadian dollars, except share amounts)

	shares (Note 15)	Share capital (Note 15)	Reserves		Deficit	Total
			Warrants (Note 16)	surplus (Note 16)		
	#	\$	\$	\$	\$	\$
Balance, January 1, 2023	404,654,387	53,533	4,266	11,823	(22,411)	47,211
Exercise of restricted share units	337,500	60	-	(60)	-	-
Exercise of stock options	4,047,177	485	-	(129)	-	356
Share based compensation	-	-	-	399	-	399
Expired warrants	-	-	(586)	586	-	-
Comprehensive loss	-	-	-	-	(1,770)	(1,770)
Balance, December 31, 2023	409,039,064	54,078	3,680	12,619	(24,181)	46,196
Convertible debenture conversion	114,545,455	5,953	-	-	-	5,953
Proceeds from issuance of common shares	53,151,642	3,194	-	-	-	3,194
Share based compensation	-	-	-	(91)	-	(91)
Expired warrants	-	-	(3,680)	3,680	-	-
Comprehensive income	-	-	-	-	9,463	9,463
Balance, December 31, 2024	576,736,161	63,225	-	16,208	(14,718)	64,715

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

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

Year ended December 31,	Notes	2024	2023
(thousands of Canadian dollars)			
Cash provided by (used in)			
Operating activities			
Net income (loss) from continuing operations		13,594	(1,913)
Depreciation and amortization	8, 11, 13	5,036	2,477
Finance costs	18	2,902	2,781
Unrealized gain on changes in fair value of biological assets	6	(10,792)	(12,549)
Change in fair value of biological assets realized	7	17,570	22,321
Share-based (recovery) compensation	16	(877)	1,365
Gain on acquisition of AgMedica Bioscience Inc.	4	(16,041)	-
Other non-cash items		(193)	828
Interest paid on long-term debt and lease liabilities	18	(2,853)	(2,682)
Changes in non-cash working capital	24	(6,027)	(4,440)
Cash provided by continuing operating activities		2,319	8,188
Cash provided by (used in) discontinued operating activities	10	1,661	(1,613)
Cash provided by operating activities		3,980	6,575
Investing activities			
Acquisition of Agmedica Bioscience Inc., net of cash acquired	4	177	-
Purchase of property, plant and equipment	8	(736)	(1,453)
Payment of initial direct lease costs		(36)	(576)
Purchase of intangible assets	11	(239)	(129)
Changes in non-cash working capital	9, 24	-	22
Proceeds from the sale of Prairie Records Retail assets	10	2,110	-
Cash provided by (used in) continuing investing activities		1,276	(2,136)
Cash used in discontinued investing activities	10	(89)	-
Cash provided by (used in) investing activities		1,187	(2,136)
Financing activities			
Proceeds from issuance of equity	15	3,194	356
Payment of cash-settled share-based instruments		(219)	(87)
Proceeds from long-term debt		-	532
Repayment of long-term debt	14	(2,786)	(3,400)
Repayment of lease liabilities	13	(1,789)	(967)
Cash used in continuing financing activities		(1,600)	(3,566)
Cash used in discontinued financing activities	10	(51)	(358)
Cash used in financing activities		(1,651)	(3,924)
Increase in cash		3,516	515
Cash, beginning of year		3,481	2,966
Cash, end of year		6,997	3,481

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

DECIBEL CANNABIS COMPANY INC.

Notes to the Consolidated Financial Statements

For the years ended December 31, 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 three cultivation facilities, one of which was acquired in the current year, another that received its licensing in January of 2021, and a processing and extraction facility which received its licensing in 2020. The common shares of Decibel (“Common Shares”) trade on the TSX-Venture Exchange (“TSX-V”) under the ticker symbol “DB” and on the OTCQB Venture Market under the symbol “DBCCF”. The Company's warrants trade on the TSX-V under the trading symbol “DB.WT.A”.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and settle its obligations in the normal course of business. The ability of the Company to carry out its planned business objectives is dependent on its ability to raise adequate financing from lenders, shareholders and other investors and/or continue to generate operating profitability and positive cash flow.

The consolidated financial statements for the year ended December 31, 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
		2024	2023	
Decibel Cannabis Company Inc.	Alberta	100%	100%	Consolidation
Decibel Labs Holdings Inc.	Alberta	100%	100%	Consolidation
Westleaf Labs Inc.	Alberta	100%	100%	Consolidation
Westleaf Labs LP	Alberta	100%	100%	Consolidation
We Grow B.C. Ltd.	British Columbia	100%	100%	Consolidation
1070582 B.C. Ltd.	British Columbia	100%	100%	Consolidation
R. Spetifore & Sons Ltd.	British Columbia	100%	100%	Consolidation
Thunderchild Holdings Inc.	Alberta	100%	100%	Consolidation
dB Thunderchild Cultivation Inc.	Alberta	100%	100%	Consolidation
dB Thunderchild Cultivation LP	Alberta	100%	100%	Consolidation
dB Retail Holdings Inc.	Alberta	100%	100%	Consolidation
dB Retail LP	Alberta	-	100%	Consolidation
AgMedica Bioscience Inc.	Ontario	100%	-	Consolidation

2. Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS® Accounting Standards as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee.

The consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on April 21, 2025.

2. Basis of presentation (continued)

(b) Basis of measurement

The consolidated 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 consolidated 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 consolidated financial statements. Control exists when the Company has the power to govern the financial and operating policies of an entity and be exposed to the variable returns achieved by the entity. All significant intercompany balances and transactions are eliminated on consolidation.

(e) Discontinued operations

In April 2024, the Company completed the sale of its Prairie Records retail asset to Fire and Flower Inc., a wholly owned subsidiary of 2759054 Ontario Inc., operating as FIKA. The accompanying Notes to the Consolidated Financial Statements have been updated to reflect the impact of the sale, with prior year balances revised to present only the continuing operations. For further details on the assets held for sale and discontinued operations, refer to Note 10.

3. Material accounting policies

(a) Government grants and assistance

The Company recognizes an unconditional government grant or assistance when there is reasonable assurance that the entity will comply with any required conditions and the amount becomes receivable. Amounts related to assets are recognized as reductions of the carrying amount of the associated assets on the consolidated statements of financial position. Amounts that compensate the Company for expenses incurred are presented as a reduction of the associated expense item on the consolidated statements of income (loss) and comprehensive income (loss).

(b) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. Foreign currency balances are translated into Canadian dollars at exchange rates in effect on the reporting date. Realized and unrealized exchange gains and losses are recognized in the consolidated statements of income (loss) and comprehensive income (loss).

(c) Biological assets

Biological assets are measured at fair value in accordance with IAS 41 Agriculture. The Company's biological assets consist of cannabis plants which are not yet harvested. These biological assets are measured at fair value less costs to sell and costs to complete at the end of each reporting date. All direct and indirect biological transformation costs are capitalized as incurred to the biological assets that are presented on the consolidated statements of financial position. Unrealized fair value gains or losses arising from changes in fair value less cost to sell are included in the consolidated statements of income (loss) and comprehensive income (loss) in the period the related product is sold. At the point of harvest, the biological assets are transferred to inventory at fair value less costs to sell and costs to complete.

3. Material accounting policies (continued)

(d) Inventory

Wholesale Inventory

Wholesale inventories of harvested bulk cannabis extracted cannabis intermediates and finished goods are valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. The determination of the net realizable value of wholesale inventory requires judgement and estimates. The most significant judgements and estimates which management considers in determining the net realizable value of wholesale inventory are expected future selling prices and the age of the wholesale inventory. Future selling prices are determined based upon an estimated selling price in the ordinary course of business less both the estimated costs of completion and costs necessary to make the sale.

Inventories of harvested cannabis are transferred from biological assets at their fair value, less costs to complete, cost to sell at harvest and related margins for these activities, which becomes the initial deemed cost. All subsequent direct and indirect post-harvest costs are capitalized to inventory as incurred.

Post-harvest and extraction production costs are capitalized as incurred as a component of the inventory cost and include labour-related costs, consumables, packaging supplies, facilities costs including an allocation of overhead costs related to the production facility, quality and testing costs and related depreciation.

Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When wholesale inventory is sold, the carrying amount of the inventory is recognized as an expense in cost of goods sold in the period in which the related revenue is recognized. Any fair value adjustments included in the carrying amount related to the period while cannabis was a biological asset are presented separately as a change in the fair value of biological assets realized through inventory sold.

Retail Inventory

Retail inventory is valued at the lower of cost and net realizable value. Cost is determined based on a first-in, first-out basis. Cost includes the acquisition cost at the date of the purchase and costs directly attributable to bringing the inventory to the location and condition necessary for distribution to the customers. Net realizable value is the estimated selling price, in the ordinary course of business, less the estimated selling and distribution expenses.

When retail inventory is sold, the carrying amount of the inventory is recognized as an expense in cost of goods sold in the period in which the related revenue is recognized.

(e) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Depreciation is provided on a straight-line basis over the following terms:

Computer software and hardware	3 years
Furniture and fixtures	5 years
Production equipment	5 – 10 years
Buildings	25 years
Leasehold improvements	term of the lease

An asset's residual value, useful life and depreciation method is reviewed during each financial year and adjusted if appropriate.

3. Material accounting policies (continued)

(e) Property, plant and equipment (continued)

Construction in progress assets are transferred to their applicable asset class when available for use and depreciation of the assets commences at that point. Each part of a component of property, plant and equipment with a cost that is significant in relation to the total cost of the component is depreciated separately.

The Company capitalizes borrowing costs on capital invested in construction in progress projects (Note 8). Once the asset is read for its intended use, capitalization of interest costs ceases and the capitalized amounts are depreciated over the useful life of the related asset.

(f) Intangible assets

Intangible assets with finite useful lives, are measured at cost less accumulated amortization and impairment losses. Amortization is provided on a straight-line basis over the following terms:

Manufacturing contracts	2 years
Trademarks	15 years
Website development	3 years
Product development	5 years
Software	3 years
Licenses	2 years

An asset's residual value, useful life and amortization method are reviewed during each financial year and adjusted if appropriate.

Product development relates to the development of infused pre-roll products which are amortized over a 5 year lifespan.

(g) Impairment on non-financial assets

Goodwill is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other long-lived assets, including property, plant and equipment and intangible assets, are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. During the year ended December 31, 2024, goodwill associated with the retail cash-generating unit was fully impaired in connection with the Prairie Records retail sale. For further details, please refer to Note 10.

For the purpose of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit "CGU"). The company has four CGUs comprised of; three cultivations facilities and an extraction and manufacturing facility. The recoverable amount of an asset or a CGU is the higher of its fair value less cost to sell and its value in use as determined by the pre-tax present value of the expected future cash flows of such assets or CGU. If the carrying amount of an asset or CGU exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss equal to the amount of the excess.

Any subsequent reversal of an impairment loss will be treated as an increase to the carrying amount of the asset. The increase to the carrying amount of the asset or CGU will be the lesser of the value needed to present the carrying amount at what it would have been at the time of the impairment reversal if no impairment loss was initially recognized or the revised estimate of the recoverable amount for the asset or CGU.

3. Material accounting policies (continued)

(h) Leases

Lessee

At the inception of a contract, the Company assesses whether the contract is, or contains a lease. The right to control the use of an identified asset for a period of time in exchange for consideration is the underlying arrangement which is assessed to deem a lease classification. Several criteria are reviewed including;

- whether the Company has the right to obtain substantial economic benefit from the use of the asset will be received; and
- whether the Company has the right to direct use of the asset.

For a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is measured at cost and is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred, estimated costs to dismantle the underlying asset and restore the underlying asset or site on which it was located and less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term. The useful life is determined using the same basis as those for similar assets (Note 8 Property, plant and equipment). Any subsequent remeasurement of the corresponding lease liability would also reduce the asset value.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease payments included in the measurement of the lease liability includes fixed payments, variable lease payments dependent on an index or rate, expected amounts to be paid under a residual value guarantee and if reasonably certain to exercise, any purchase, termination, or renewal option amounts.

Subsequent measurement of the lease liability is at amortized cost using the incremental borrowing rate method. Remeasurement occurs when there is a change in the future lease payments arising from changes in the underlying index or rate or if the Company's intentions to purchase, terminate or renew change. A corresponding adjustment is made to the right-of-use asset or else is recorded in the consolidated statements of income (loss) and comprehensive income (loss) if the corresponding asset has a \$nil carrying value.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases with lease terms of twelve months or less as well as leases of low-value assets.

Lessor

At the inception of a contract, the Company assesses whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risk and rewards of ownership incidental to ownership of the underlying asset.

3. Material accounting policies (continued)

(h) Leases (continued)

If this is the case, then the lease is considered a finance lease and, if not, then it is an operating lease.

When the Company is an intermediate lessor, it accounts for its interests in the head lease of the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease.

For finance sub-leases, the corresponding right-of-use asset is derecognized and a net investment in the finance sub-lease is recognized and related interest income is recognized in finance costs.

(i) Revenue recognition

Retail revenue is comprised of cannabis, merchandise, and accessory product sales to store location end-user customers, e-commerce end-user customers in the province of Saskatchewan as well as store location business-to-business cannabis product sales in the provinces of Saskatchewan and Alberta. On April 10, 2024, the Company completed the sale of its retail cash-generating unit, Prairie Records, to Fire & Flower Inc., a wholly owned subsidiary of 2759054 Ontario Inc., d.b.a FIKA. For further details, please refer to Note 10.

Wholesale revenue is comprised of both bulk cannabis cultivation and extraction product wholesale sales to other licensed cannabis producers as well as sales of packaged finished goods to distributors and retailer locations for end-user customer purchase.

To determine the amount and timing of revenue to be recognized, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue from the sale of cannabis to licenced producers, distributors, and end-use customers is recognized when the Company transfers control of the goods to the customer. Control of the product transfers at a point in time either upon shipment to or receipt by the customer, depending on the contractual terms.

Decibel recognizes revenue in an amount that reflects the consideration the Company expects to receive taking into account any variation that may result from rights of return and price protection adjustments. The expected returns and price protection adjustments are estimated based on historical data and management's expectation of future returns. Any right of return liability, price protection variance and returned goods estimate is recognized in the accounts payable and accrued liabilities and inventory line items respectively on the consolidated statements of financial position.

(j) Research and development

Research costs are expensed in the period incurred. Development costs are expensed in the period incurred unless the Company believes a development project meets the generally accepted criteria for deferral and amortization of IAS 38 "Intangible Assets".

If an internally generated intangible asset arises from the development phase of a project, then directly attributable expenditure is capitalised from the date on which the entity is able to demonstrate:

1. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
2. its intention to complete the intangible asset and use or sell it;

3. Material accounting policies (continued)

(j) Research and development (continued)

3. its ability to use or sell the intangible asset;
4. how the intangible asset will generate probable future economic benefits;
5. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
6. its ability to reliably measure the expenditure attributable to the intangible asset during its development.

The Company has historically capitalized product development costs to intangible assets when generally accepted criteria is met for deferral and amortization of IAS “Intangible Assets”.

(k) Shared-based compensation

Equity-settled share-based instruments

Equity-settled share-based payments to employees and others providing similar services, are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Company’s estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated statements of income (loss) and comprehensive income (loss) such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Consideration paid by employees and others upon the exercise of equity-settled share-based payments is recorded as share capital and the related share compensation expense is transferred from the share-based payments reserve to share capital.

Cash-settled share-based instruments

Cash-settled share-based payments to employees, executives, and directors are measured at the fair value of the equity instruments at the grant date. At each reporting date between the grant date and settlement date, the fair value of the liability is re-measured with any changes in fair value recognized in the consolidated statements of income (loss) and comprehensive income (loss).

(l) Income (loss) per share

The Company calculates basic income (loss) per share by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is determined by adjusting the income (loss) attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive common shares, including convertible debentures, restricted share units, warrants and stock options.

The Company uses the treasury stock method to determine the dilutive effect of on its common shares. Under the treasury stock method, outstanding and exercisable instruments that will have a dilutive effect are included in per-share calculations, ordered from most dilutive to least dilutive.

3. Material accounting policies (continued)

(m) Income taxes

Income tax expense includes current and deferred tax. The expense is recognized in profit or loss, except for income tax related to the components of other comprehensive income or equity, in which case the tax expense is recognized in other comprehensive income or equity, respectively.

Current tax assets and liabilities are obligations to or claims from the taxation authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on the basis of taxable profit, which differs from profit or loss in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are calculated using the asset and liability method on temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

(n) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognized on the statement of financial position at the time the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or when the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized from the consolidated financial statements when the liability is extinguished either through settlement of or release from the obligation of the underlying liability.

Financial assets and financial liabilities are offset only when there is a legally enforceable right to do so and the intention is to settle on a net basis or realize the asset and settle the liability simultaneously.

The Company aggregates its financial instruments into classes based on their nature and characteristics. Management determines the classification when the instruments are initially recognized, which is normally at the date of the transaction.

The Company classifies its financial instruments in the following classes:

- i) At fair value through profit or loss (“FVTPL”);
- ii) At fair value through other comprehensive income (“FVTOCI”); and
- iii) Amortized cost.

Initial recognition and subsequent measurement are dependent on the classification of the financial instrument.

Financial instrument classes - measurement and presentation

i. FVTPL

All financial assets that do not meet the definition of being measured at amortized cost or FVTOCI are measured at FVTPL.

3. Material accounting policies (continued)

(n) Financial instruments (continued)

A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative not designated as an effective hedging instrument, or designated as FVTPL on initial recognition.

The Company may make an irrevocable election to designate as measured at FVTOCI certain investments in equity instruments that would otherwise be measured at FVTPL. If the election is made it is irrevocable and the designated financial instruments must be recorded at FVTPL until the items are derecognized.

The Company makes an irrevocable election to designate as measured at FVTPL a financial liability if it significantly reduces a measurement or recognition inconsistency that would otherwise arise, or the financial liability is managed and evaluated on a fair value basis by Management.

The Company does not have any FVTPL financial assets or liabilities.

ii. FVTOCI

A financial asset is measured at FVTOCI if the objective of the business model is to both collect contractual cash flows and sell financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that represent only payments of principal and interest on that principal amount.

The Company does not have any FVTOCI financial assets.

iii. Amortized cost

A financial asset is measured at amortized cost, net of transaction costs, if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual terms give rise on specified dates to cash flows that represent only payments of principal and interest on that principal amount.

All financial liabilities are measured at amortized cost using the effective interest method except for the circumstances dictating measurement as FVTPL or FVTOCI.

The Company may at times issue convertible debentures which are financial instruments that are accounted for separately dependent on the nature of their components: a financial liability and an equity instrument. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. Where the conversion option has a variable conversion rate, the conversion option is recognized as a derivative liability measured at fair value through profit and loss. The residual amount is recognized as a financial liability and subsequently measured at amortized cost. Transaction costs are apportioned to the debt liability and equity components in proportion to the allocation of proceeds.

The Company holds financial assets and liabilities that are measured at amortized cost, including cash, accounts receivable, accounts payable, accrued liabilities, and long-term debt.

3. Material accounting policies (continued)

(o) Impairment on financial assets

An expected credit loss model is applied to the assessment of impairment of financial assets. A loss allowance provision is recognized for the twelve-month expected credit losses subsequent to the reporting period or at full lifetime expected credit losses depending on the nature of the instrument and the impairment conditions.

Recognition of a provision for full lifetime expected credit losses is required for a given financial instrument if the credit risk has increased significantly since initial recognition. In addition, a company can elect to provide for lifetime losses of contract assets and non-financing transaction trade receivables.

For all other financial instruments, the provision will amount to expected credit losses for the ensuing twelve-month period.

The measurement of any credit losses will incorporate a probability-weighted outcome risk analysis comprising estimated future credit losses discounted at the assets' credit-adjusted effective interest rate.

(p) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and related parties may be individuals or corporate entities. A transaction is considered to be related party transaction when there is a transfer of resources or obligations between related parties.

(q) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred to the Company, liabilities assumed by the Company and the equity interests issued or cash paid by the Company in exchange for control of the acquiree. Acquisition-related costs are expensed as incurred, unless related to the issuance of debt or equity.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value. The Company measures goodwill as the excess of the sum of the fair value of the consideration transferred, if any, over the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Gains may arise from an acquisition when the fair value of the acquired identifiable net assets exceeds the fair value of the considerations transferred.

(r) Provisions

Provisions are recognized at the present value of management's best estimate of the expenditures required to settle the obligation at the reporting date. A provision is recognized when the Company has a legal or constructive obligation arising from past events, it is probable that an outflow of resources will be needed to settle the obligation, and the amount can be reliably estimated. Potential assets arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of uncertain future events not entirely within the Company's control, are not recognized in the Consolidated Statements of Financial Position and are treated as contingent assets.

3. Material accounting policies (continued)

Critical accounting judgements, estimates and assumptions

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

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

Critical judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

Account receivable

The recognition of accounts receivable requires the Company to assess the credit risk and collectability when determining allowances for expected credit loss. In performing the assessment, the Company considers historical trends, available information indicating potential liquidity or going concern issues of the customer, and the status of any contractual or legal disputes. The Company's provision is based on its historical credit loss experience, adjusted for forward-looking factors specific to the customers and the economic and market conditions.

Biological assets and inventory

The Company is required to make a number of significant estimates and assumptions in calculating the fair value less costs to sell and costs to complete of biological assets. The significant estimates and assumptions in determining the fair value less costs to sell and costs to complete of biological assets include the estimated average selling price per gram, stage of growth of the cannabis up to the point of harvest, average yield per plant, harvesting cost, and selling cost. Further information on estimates used in determining the fair value of biological assets is contained in Note 6.

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

Business combinations

At the time of an acquisition, management exercise judgement to assess whether the acquisition constitutes a business combination or an asset acquisition. IFRS 3, Business Combination, is only applicable when a business has been acquired. In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values as of the acquisition date. A significant area of judgement and estimation pertains to the determination of the fair value of these assets and liabilities, including the fair value of the consideration given and the allocation of the purchase price. Significant judgements are involved in determining the fair value of property, plant and equipment, which includes factors such as estimated construction cost, current estimated cost to purchase or replace similar assets, and relevant inflation indices. If any intangible assets are identified, the Company determines their fair value based on the nature and complexity of the intangible asset, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked to closely to the assumptions made by management regarding the future performance of the assets acquired and the discount rate applied.

3. Material accounting policies (continued)

Determination of cash-generating units

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets. Significant judgement is involved in determining the smallest group of assets that generate independent cash flows.

Estimated useful lives of long-lived assets

The depreciation of property, plant and equipment, and intangible assets is based on estimates of their useful lives and residual values, which are determined through management's judgement. The assessment of any potential impairment of these assets relies on estimates of their recoverable amounts, taking into account such as economic and market conditions and the assets' useful lives.

Going concern

At each reporting period, management exercises judgement in evaluating the Company's ability to continue as a going concern and operate in the normal course of business. This assessment involves reviewing the Company's performance, resources, and future obligations. The conclusion that the Company can continue as a going concern relies on critical judgements made by management regarding assumptions related to the short- and long-term operating budget, expected profitability, investment and financing activities, and strategic planning. These assumptions are based on actual operating results, as well as industry and market trends.

Leases

The measurement of right-of-use assets and lease liabilities requires judgement in determining lease terms, including the likelihood of exercising extension options and selecting the appropriate discount rate. When an incremental borrowing rate is used, the Company estimates the incremental borrowing rate based on the lease term, collateral assumptions, and the economic environment in which the lease is denominated. Renewal options are included only if management is reasonably certain that option will be exercised.

Share-based compensation

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options for the purpose of measuring share-based compensation. Management applies judgement in calculation of input variables utilized in the Black-Scholes model, including the risk-free interest rate (derived from government bond yields), anticipated stock price volatility, expected option life, forfeiture rate, and expected dividend yield.

Convertible debentures

The identification of the components of a convertible debenture requires management's judgment, based on the interpretation of the contractual arrangement. The allocation of the components impacts the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is dependent on contractual cash flows, discount rates and the presence of any derivative financial instruments.

Future returns and price adjustments

Governmental authorities have the right to return products and, in certain circumstances, the right to receive price adjustments for product that are subsequently discounted or become slow-moving. Estimating potential future returns and pricing adjustments involves management's judgement and assumptions regarding the timing of inventory movement and changes in listed sales prices across jurisdictions.

3. Material accounting policies (continued)

New and amended standards and interpretations not yet adopted

The Company adopted the following new standard and amendment to existing standards, which became effective on January 1, 2024. The adoption of these changes did not have a material impact on the Consolidated Financial Statements.

- i. Amendments to IAS 1: Classification of Liabilities as Current or Non-current

New Standard: IFRS 18 – Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18, a new standard that establishes a defined structure for the statement of profit and loss and introduces specific disclosure requirements for the statement of profit and loss.

The standard is effective for annual reporting periods beginning on or after January 1, 2027, and it also applies to comparative information.

4. Business Combination

On October 28, 2024, the Company acquired the assets and liabilities of AgMedica BioScience Ltd. (“AgMedica”). The acquisition was executed through an assignment agreement with Callisto Capital Corp. (“Callisto”), whereby Callisto assigned its rights and obligations under a subscription agreement dated October 28, 2024, between Callisto, Atlas Global Brands Inc. (“Atlas”), and AgMedica. This transaction was conducted in accordance with an Approval and Reverse Vesting Order granted as part of Atlas' Companies' Creditors Arrangement Act (CCAA) process, which involved Atlas and its subsidiaries, including AgMedica. The acquisition consideration included the issuance of a \$6.3 million unsecured convertible debenture (the “Convertible Debenture”) to Callisto. The debenture bears interest at 15% per annum, payable in full at maturity on April 28, 2025. The conversion of the Convertible Debenture into common shares of the Company is subject to approval by the TSX Venture Exchange and the shareholders. The fair value of the equity component was determined to be nominal, therefore the entire fair value was allocated to the debt. On December 3, 2024, the Company converted its convertible debenture into 114,545,455 common shares issued to Callisto, in accordance with the debenture agreement.

As part of the transaction, the Company also acquired GreenSeal Nursery, Ltd., a licensed nursery that maintains and holds certain cannabis genetics.

AgMedica is a licensed cannabis producer with expertise in international distribution, serving seven different countries. Additionally, post acquisition, AgMedica entered into a 5-year industrial lease agreement for its EU GMP-certified cannabis cultivation and manufacturing facility located in Chatham, Ontario. The acquisition of AgMedica is a key step in expanding Decibel’s global presence and advancing the development of the brand worldwide.

The Company has determined that the acquisition of AgMedica qualifies as a business combination under IFRS 3, as the acquired entity represents a set of activities that, together, contribute substantively to the generation of outputs. The acquired inputs, including an organized workforce with the necessary skills, knowledge, and experience, are integral to the performance of these activities.

The acquisition has been accounted for using the acquisition method of accounting, under which the assets acquired and liabilities assumed are recognized at their fair values as of the acquisition date. The initial allocation of fair values to the net assets acquired is provisional, based on estimates and assumptions available at the time of preparing these consolidated financial statements. The final purchase price allocation may be adjusted in the future, as the fair values are finalized. However, such adjustments will be made within the measurement period, which will not exceed one year from the acquisition date.

4. Business Combination (continued)

The convertible debenture has been accounted for in accordance with IFRS 3, Business Combinations, with the fair value determined as of the acquisition date.

In connection with the acquisition, the Company incurred acquisition-related costs totaling approximately \$0.3 million, primarily consisting of consulting and professional fees. These costs have been recorded as part of general and administrative expenses in the consolidated statements of income (loss) and comprehensive income (loss).

The fair value of the identifiable assets and liabilities of AgMedica Bioscience Inc. at acquisition date is:

October 28,	2024
Debt consideration	6,300
Equity consideration	-
Total consideration	6,300
<hr/>	
October 28,	2024
Assets acquired	
Cash	177
Accounts receivable	534
Other current assets	233
Biological assets	3,663
Inventory	134
Property, plant and equipment	18,528
Intangible assets	505
Total assets acquired	23,774
Liabilities acquired	
Accounts payable and accrued liabilities	(1,432)
Total liabilities acquired	(1,432)
Net identifiable assets acquired	22,342

Accounts receivable and other current assets are presented net of provisions of \$5 thousand and \$68 thousand, respectively. There is no goodwill recognized from the business combination. A gain of \$16.0 million was recognized in connection with the acquisition of AgMedica Bioscience Inc., reflecting the excess fair value of identifiable assets and liabilities over the consideration paid to acquire AgMedica out of CCAA proceedings.

From the date of acquisition, AgMedica Bioscience Inc. contributed \$3.4 million in net revenue and \$0.8 million to net income for the year ended December 31, 2024.

The pro-forma supplemental information is impracticable to disclose due to the inability to obtain sufficient reliable annual data, given the distressed nature of AgMedica proceedings under the Companies' Creditors Arrangement Act.

5. Accounts receivable

The Company's account receivable consists of the following:

December 31,	2024	2023
Accounts receivable	11,695	13,430
Receiver general	91	234
Balance, end of period	11,786	13,664

During the year, the Company recorded \$513 thousand (2023 - \$1.8 million) in write-offs of trade receivable to bad debt expense. Decibel has not recognized any expected credit losses for the remaining amounts presented above as they are considered fully collectible.

The movement in the allowance for doubtful accounts in related to accounts receivable for the year end December 31, 2024, are as follows:

December 31,	2024	2023
Balance, beginning of year	(1,817)	-
Add: additional allowances	(354)	(1,817)
Less: receivable write offs	513	-
Balance, end of period	(1,658)	(1,817)

6. Biological assets

December 31,	2024	2023
Balance, beginning of year	1,891	2,358
Unrealized gain on changes in fair value of biological assets	10,792	12,549
Capitalized costs during biological transformation	9,740	9,846
Transferred to inventory upon harvest	(20,882)	(22,862)
Balance, end of period	1,541	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 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.

6. Biological assets (continued)

	2024	2023	10% change 2024	10% change 2023
Average selling price per gram	\$2.66	\$4.42	127,520	229,457
Stage of growth	37%	35%	28,642	122,799
Average yield per plant (grams)	71.49	48.01	28,642	122,799
Post-harvest cost per gram	\$0.20	\$0.45	18,618	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 37% through its 16 weeks growing cycle would be ascribed approximately 37% of its harvest date expected fair value less remaining processing and selling costs.

During the year ended December 31, 2024, the Company harvested 4,955 kilograms of dried cannabis and trim (2023 – 4,616 kilograms). As of December 31, 2024, it was expected that the Company's biological assets would yield approximately 1,258 kilograms of dried cannabis and trim if harvested on the reporting date (2023 – 519 kilograms).

7. Inventory

December 31,	2024	2023
Wholesale ⁽ⁱ⁾		
Raw materials	37,330	43,217
Finished goods	6,132	5,590
Less: provision	(1,667)	(1,688)
Total wholesale	41,795	47,119
Discontinued retail operations		
Cannabis	-	1,487
Accessories	-	69
Merchandise	-	30
Total discontinued retail operations	-	1,586
Balance, end of period	41,795	48,705

(i) Includes \$10.9 million within the Company's extraction and manufacturing cash generating unit.

The fair value changes in biological assets included in wholesale inventories sold during the year ended December 31, 2024, account for \$17.6 million (2023 - \$22.3 million).

In 2024, inventories of \$48.2 million (2023 – \$57.7 million) were recognized as an expense during the year and included in 'cost of good sold.'

8. Property, plant and equipment

Cost	Note	Land	Buildings	Construction in Progress	Leasehold Improvements	Production Equipment	Furnitures & Fixtures	Computer Hardware	Total
January 1, 2023		3,800	49,929	2,537	2,973	8,168	575	1,915	69,897
Additions		-	42	824	5	437	60	85	1,453
Transfers		-	-	-	-	-	-	(461)	(461)
December 31, 2023		3,800	49,971	3,361	2,978	8,605	635	1,539	70,889
Additions		-	4	603	-	121	3	5	736
Acquisition additions	4	-	-	6,622	6,350	5,432	82	42	18,528
Disposals		-	-	-	(213)	-	(5)	(1)	(219)
Discontinued operations	10	-	-	-	(2,221)	-	(71)	(160)	(2,452)
December 31, 2024		3,800	49,975	10,586	6,894	14,158	644	1,425	87,482

Accumulated Depreciation									
January 1, 2023		-	4,979	-	1,117	4,317	268	1,292	11,973
Depreciation		-	2,000	-	366	822	118	250	3,556
Transfers		-	-	-	-	-	-	(217)	(217)
December 31, 2023		-	6,979	-	1,483	5,139	386	1,325	15,312
Depreciation		-	2,001	-	243	872	105	133	3,354
Disposals		-	-	-	(53)	-	(3)	(1)	(57)
Discontinued operations	10	-	-	-	(988)	-	(37)	(158)	(1,183)
December 31, 2024		-	8,980	-	685	6,011	451	1,299	17,426

Net Book Value									
December 31, 2023		3,800	42,992	3,361	1,495	3,466	249	214	55,577
December 31, 2024		3,800	40,995	10,586	6,209	8,147	193	126	70,056

In 2024, depreciation related to production building and equipment assets capitalized as part of production costs within inventory amounted to \$566 thousand (2023 - \$1.9 million).

As of December 31, 2024, the carrying value of inventory includes \$878 thousand of inventoried depreciation costs (2023 – \$1.3 million).

9. Other Assets

December 31,	2024	2023
Prepaid expenses	1,689	862
Deposits	668	2,779
Sub-lease receivable	62	101
Other current assets	2,419	3,742
Deposits	5,685	2,931
Sub-lease receivable	-	62
Other long-term assets	5,685	2,993

The deposits balance includes cash posted to the Government of Canada for financial security of Cannabis licenses, deposits related to a genetics purchase agreement that Decibel entered into on January 1, 2021 and prepayments on vape cartridges and glass tube packaging for pre-rolls.

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

10. 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 at December 31, 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 \$0.8 million, and incurred an impairment loss of \$3.9 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 December 31, 2024 and 2023, respectively:

December 31,	2024	2023
Retail revenue	2,649	9,734
Cost of goods sold	1,740	6,641
Gross profit	909	3,093
Selling, general and administration	730	2,026
Depreciation and amortization	309	633
Share compensation expense	2	7
(Loss) Income from discontinued operations	(132)	427
Non-operating items:		
Finance costs	31	143
Other loss	-	141
Impairment	3,968	-
	3,999	284
Net (loss) income and comprehensive (loss) income from discontinued operations	(4,131)	143

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

December 31,	2024	2023
Cash provided by (used in) discontinued operating activities	1,661	(1,613)
Cash used in discontinued investing activities	(89)	-
Cash used in discontinued financing activities	(51)	(358)

11. Intangible assets

Cost	Note	Product	Manufacturing	Website			Licenses	Total
		Development	Contracts	Trademarks	Development	Software		
January 1, 2023		230	199	156	230	-	-	815
Additions		-	-	27	102	-	-	129
Transfers		-	-	-	-	461	-	461
Disposals		-	-	-	-	(23)	-	(23)
December 31, 2023		230	199	183	332	438	-	1,382
Additions		211	-	1	-	27	-	239
Acquisition additions	4	-	-	-	-	-	505	505
Discontinued operations	10	-	-	(10)	(55)	-	-	(65)
December 31, 2024		441	199	174	277	465	505	2,061
Accumulated Depreciation								
January 1, 2023		49	199	2	202	-	-	452
Depreciation		47	-	33	41	70	-	191
Transfers		-	-	-	-	216	-	216
Disposals		-	-	-	-	(4)	-	(4)
December 31, 2023		96	199	35	243	282	-	855
Depreciation		81	-	12	44	93	42	272
Discontinued operations	10	-	-	(3)	(53)	-	-	(56)
December 31, 2024		177	199	44	234	375	42	1,071
Net Book Value								
December 31, 2023		134	-	148	89	156	-	527
December 31, 2024		264	-	130	43	90	463	990

12. Goodwill

December 31,	2024	2023
Balance, beginning of year	4,259	4,259
Disposal of discontinued operations	(4,259)	-
Balance, end of period	-	4,259

Goodwill relates to the retail cash generating unit. As at December 31, 2023, the Company performed its annual goodwill impairment test by comparing the carrying amount of assets within its retail cash generating unit to its recoverable amount as measured by discounting the expected future cash flows using the value in use approach. The estimate of the recoverable amount exceeded the respective carrying values and, as such, the Company determined the goodwill had not been impaired. Management believes that any reasonable possible change in the key assumptions used to calculate the recoverable amounts would not have a material impact on the impairment assessment.

Assumptions relating to the Company's annual goodwill impairment test include:

- (i) A five-year projection of cash flow discounted to present day and compared to the carrying amount of assets within its retail cash generating unit;
- (ii) A 2% revenue growth attributable to inflation; and
- (iii) A discount rate of 16%.

On April 10, 2024, goodwill associated with the retail cash-generating unit was fully impaired as a result of the sale of the Prairie Records retail assets. For further details, please refer to Note 10.

13. Leases

Right-of-use assets

Cost	Note	Property	Equipment	Computer Software & Hardware	Total
January 1, 2023		3,739	2,077	31	5,847
Additions		141	4,645	-	4,786
Disposals		-	-	-	-
December 31, 2023		3,880	6,722	31	10,633
Additions		4,269	2,259	-	6,528
Discontinued operations	10	(2,645)	-	-	(2,645)
December 31, 2024		5,504	8,981	31	14,516
Accumulated Depreciation					
January 1, 2023		809	387	31	1,227
Depreciation		410	848	-	1,258
December 31, 2023		1,219	1,235	31	2,485
Depreciation		336	1,793	-	2,129
Discontinued operations	10	(687)	-	-	(687)
December 31, 2024		868	3,028	31	3,927
Net Book Value					
December 31, 2023		2,661	5,487	-	8,148
December 31, 2024		4,636	5,953	-	10,589

Lease liabilities

Cost	Total	
Balance, January 1, 2023	4,775	
Additions	4,210	
Payments	(1,915)	
Finance costs	451	
Disposals	30	
Balance, December 31, 2023	7,551	
Additions	6,245	
Payments	(2,549)	
Finance costs	764	
Discontinued operations	(1,915)	
Balance, December 31, 2024	10,096	
December 31,	2024	2023
Current	1,878	1,481
Long-term	8,218	6,070

The following table represents the undiscounted lease payments to be paid, reconciled to lease obligation balance at the reporting date. For further details on annual maturity of lease payables, please refer to Note 25.

December 31,	2024	2023
Total undiscounted lease payments payable	12,531	7,960
Less: present value impact	(2,435)	(409)
Balance, end of period	10,096	7,551

13. Leases (continued)

Amounts recognized in the consolidated statements of income (loss) and comprehensive income (loss)

December 31,	2024	2023
Expenses related to short-term and low value leases	365	15

The amounts recognized in expenses in the consolidated statements of income (loss) and comprehensive income (loss) include premise rent lease amounts paid on short-term contracts, which are not intended to be utilized for greater than twelve months, as well as low value office equipment leases.

Lessor arrangements

The Company entered into a lessor arrangement with a third party by sub-leasing its former corporate office location space for the full remaining original lease term of fifty-two months in 2020. The lease liability relating to the head lease owed by Decibel remains included in the lease liabilities presented on the consolidated statements of financial position.

14. Long-term debt

Type of loan	Maturity	December 31, 2024	December 31, 2023
Connect First commercial mortgage loan	January 1, 2027	22,952	24,927
Connect First commercial mortgage loan	January 1, 2027	9,886	10,708
Authorized overdraft	On demand	5,830	5,819
Debt issuance costs		(442)	(490)
		38,226	40,964
Current		8,767	8,616
Long-term		29,459	32,348

On February 1, 2022, Decibel entered into an amended and restated credit facility agreement with the Lender providing for an aggregate principal amount of \$54 million which is comprised of \$40.5 million of commercial mortgage loans, a \$6.0 million authorized overdraft, and an accordion line of an additional \$7.5 million that is available subject to a Debt to EBITDA of less than 3.00:1.00. As at December 31, 2024, the Company's Debt to EBITDA was 1.59:1.00.

There are two mortgage loans with the Lender which mature on January 1, 2027 respectively. The mortgage loans are subject to a fixed 4.75% interest rate on each of the loans, a prime plus 1.00% interest rate on its overdraft facility, and a prime plus 2.00% interest rate on its accordion line.

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

During the year ended December 31, 2024, the Company incurred \$2.1 million in long-term debt finance costs (2023 - \$2.2 million). In the same period, the Company made principal repayments on long-term debt totaling \$2.7 million (2023: \$3.4 million).

Financial covenants

The February 1, 2022 credit agreement is subject to the following financial covenants as follows:

14. Long-term debt (continued)

a. Debt service coverage ratio

The Company shall not permit the debt service coverage ratio, defined as earnings before interest, depreciation, and amortization (“EBITDA”) less dividends declared or shareholder distributions, divided by the sum of all scheduled principal and interest paid by the Company for its current fiscal reporting year, calculated quarterly, to fall below 1.40:1.00.

As at December 31, 2024, the debt service coverage ratio is 2.58:1.00.

b. Debt to equity ratio

The Company shall not permit the debt to equity ratio, defined as total liabilities divided by total equity adjusted for lender approved adjustments for conversions and appraisals, as presented on the consolidated statements of financial position, calculated annually to be greater than 1.00:1.00.

The debt-to-equity covenant test commenced December 31, 2024.

As at December 31, 2024, the debt to equity ratio is 0.79:1.00.

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

As at December 31, 2024, the current ratio was 1.32:1.00.

15. Share capital

(a) Authorized

Unlimited number of Common voting shares

Unlimited number of Preferred shares

(b) Issued and outstanding

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

	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	409,039,064	54,078
Issuance of equity ⁽ⁱ⁾	53,151,642	3,194
Convertible debenture conversion ⁽ⁱⁱ⁾	114,545,455	5,953
Balance, December 31, 2024	576,736,161	63,225

(i) For the year ending December 31, 2024, the Company successfully completed a non-brokered private placement, issuing 53 million common shares at \$0.06 per share, resulting in gross proceeds of \$3.2 million. No share issuance costs were incurred in connection with this transaction.

(ii) On December 3, 2024, the Company completed the conversion of its convertible debenture in connection with the acquisition of AgMedica Bioscience Inc. As a result, the Company issued 114,545,455 common shares.

16. Reserves

Equity-settled share-based instruments

(a) Warrants

	Financing warrants	Weighted average
	#	\$
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, December 31, 2024	-	-

On September 16, 2021, 25,875,000 warrants were issued as part of a bought deal financing arrangement. In addition, 3,105,000 broker warrants were issued to the underwriters in association with this deal. Share-based compensation expense recognized in the consolidated statements of income (loss) and comprehensive income (loss) for the year ended December 31, 2024, was \$nil (2023 - \$nil).

(b) Stock options

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

	Number of options	Weighted average
	#	\$
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	(10,082,646)	0.18
Expired	(22,436,266)	0.32
Outstanding, December 31, 2024	5,332,359	0.16

The Company may issue up to 60.4 million common shares under its combined stock option, restricted stock unit and deferred stock unit plans. The weighted average price of the Company's common stock on the date of exercise of the stock options was \$0.16 during the 2024.

Expiry date	Number of options	Number vested and exercisable	Exercise price \$/share	Weighted average remaining contractual life
	#	#	\$	#
January 1, 2026	3,364,875	3,364,875	0.17	1.71
January 1, 2027	1,967,484	1,967,484	0.14	1.95
Outstanding December 31, 2024	5,332,359	5,332,359	0.16	-

16. Reserves (continued)

Fair value

The fair value of the stock options issued during the year ended December 31, 2024, was \$nil (2023 - \$0.07). The fair value was estimated using the Black-Scholes valuation model with the following assumptions:

December 31,	2023
Volatility (%)	91% - 161%
Risk-free interest rate (%)	3.82% - 4.20%
Expected life (years)	1.59
Dividend yield (\$)	\$nil
Forfeiture rate (%)	0%
Share price (\$)	0.13

(c) Restricted share units

The Company has a Restricted Share Unit (“RSU”) plan for directors, officers, employees or affiliates of Decibel (“RSU Participants”). Each RSU entitles the RSU Participant to one common share or cash payment at the option of the Company with a straight-line vesting period over a one-year term for directors and up to a three-year term for all other participants. Each RSU is exercisable at the option of the holder and do 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 \$
Outstanding, January 1, 2023	842,835	0.19
Exercised	(337,500)	0.18
Balance, December 31, 2023, and December 31, 2024	505,335	0.19

Grant date	RSUs outstanding #	RSUs vested, #
September 11, 2019	35,000	35,000
September 11, 2019	224,999	224,999
December 4, 2018	33,336	33,336
March 14, 2019	200,000	200,000
June 25, 2019	12,000	12,000
Outstanding December 31, 2024	505,335	505,335

Cash-settled share-based instruments

The Company has a cash-settled RSU plan for directors, officers, employees, or affiliates of Decibel (“eligible Participants”). Each RSU entitles the eligible Participant to the cash equivalent of one common share for each vested RSU. The cash-settled RSUs awarded vest in three equal portions over three years, and will be settled in cash on 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 deferred share unit (“DSU”) plan for directors of Decibel. Each DSU entitles the eligible participant to the cash equivalent of one common share for each vested DSU. The cash-settled DSUs are fully vested upon being credited to a Director's DSU account and will be redeemed upon the Director's departure from the Company.

16. Reserves (continued)

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 the consolidated statements of income (loss) and comprehensive income (loss) for the period. The short-term portion of cash-settled share-based compensation is presented in other current liabilities \$221 (2023 - \$194). The long-term portion of cash-settled share-based compensation liability is presented in other long-term liabilities \$290 (2023 - \$1,571).

	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	1,764
Exercised	(6,198,336)	-	(1,037)
Forfeited	(3,264,954)	-	(190)
Expired	-	(395,070)	(26)
Outstanding December 31, 2024	1,281,917	6,020,536	511

Expiry Date	Outstanding RSUs	Number vested and
	#	#
January 1, 2027	1,281,917	1,280,725
Outstanding December 31, 2024	1,281,917	1,280,725

Grant Date	Outstanding DSUs	Number vested
	#	#
April 16, 2021	341,197	341,197
January 20, 2022	1,532,616	1,532,616
April 13, 2023	4,146,723	4,146,723
Outstanding December 31, 2024	6,020,536	6,020,536

Share-based compensation expense

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

December 31,	2024	2023
Equity-settled awards:		
Stock options	(91)	399
Cash-settled awards:		
Deferred share units	(413)	287
Restricted share units	(373)	679
	(877)	1,365

17. 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.

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 December 31, 2024, the return liability for the estimate of future returns and price adjustments was \$219 (2023 - \$323) and is included in accounts payable and accrued liabilities on the consolidated statements of financial position.

Year ended December 31,	2024	2023
Gross Canadian recreational sales	136,353	173,990
International sales	4,145	3,692
Gross revenue	140,498	177,682
Excise taxes	(47,961)	(71,458)
Net revenue	92,537	106,224

18. Finance costs

Year ended December 31,	2024	2023
Cash finance costs		
Interest on term loan and equipment loan debt	2,089	2,231
Interest on lease liabilities	764	451
	2,853	2,682
Non-cash finance costs		
Accretion financing fees	49	99
	49	99
Total	2,902	2,781

19. Selling, general and administration expenses by nature

December 31,	2024	2023
Salaries, wages, and contracting fees	13,600	14,007
Sales and marketing	8,047	6,958
Office and general	6,743	6,911
Professional fees	2,409	1,673
Bad debt expense	513	1,817
Severance	107	-
Litigation settlement	-	2,573
Total selling, general and administration	31,419	33,939

20. Income (loss) per share

Year ended December 31,	2024	2023
Weighted average number of shares in basic loss per share	425,455,780	408,132,762
Restricted share units	505,335	-
Weighted average number of shares in diluted loss per share	425,961,115	408,132,762

Year ended December 31,	2024	2023
Net income (loss) from continuing operations	13,594	(1,913)
Net (loss) income from discontinued operations	(4,131)	143
Weighted average common shares - basic	425,455,780	408,132,762
Weighted average common shares - diluted	425,961,115	408,132,762
Net income (loss) from continuing operations per common share - basic & diluted	0.03	(0.01)
Net (loss) income from discontinued operations per common share - basic & diluted	(0.01)	-
Net income (loss) per common share - basic & diluted	0.02	(0.01)

The Company has two dilutive instruments: equity-settled RSUs and stock options. Anti-dilutive instruments, if any, are excluded from the weighted average number of common shares used in the calculation of diluted income (loss) per share.

For the year ended December 31, 2024, as presented in the consolidated statements of income (loss) and comprehensive income (loss), the Company reported a net income and comprehensive income as such 505,335 dilutive instruments were included in the computation of diluted net earnings per common share.

For the year ended December 31, 2023, as presented in the consolidated statements of income (loss) and comprehensive income (loss), the Company reported a net loss and, as such, the applicable outstanding shares instruments are considered anti-dilutive.

21. 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 \$4.1 million (2023 - \$3.7 million). All property, plant and equipment, right-of-use assets, and intangible assets are located within Canada.

(c) Major customers

For the year ended December 31, 2024, three customers accounted for more than 10% of the Company's wholesale revenue (2023 – three customers represented 92.6%) of which 89.1% were governmental authorities, as is typical for the industry.

22. Income taxes

The provision for income taxes reflects an effective tax rate that differs from the combined federal and provincial statutory tax rates as follows:

Year ended December 31,	2024	2023
Net income (loss) before income taxes	13,594	(1,913)
Combined federal and provincial rate	23.0%	23.0%
	3,127	(440)
Non-deductible share-based compensation and other	(102)	97
Differences in tax rates	(291)	(746)
Differences in estimates	240	421
Provision to offset deferred tax asset (a)	664	810
Gain on acquisition	(3,689)	-
Other non-deductible items	53	(143)
Income tax expense	-	-

- (a) A deferred income tax asset is recognized to the extent that it is probable that there will be taxable income available in the future to utilize the deductible temporary differences. Movements in the deferred tax assets and liabilities are comprised of the following recognized balances:

	PP&E and Intangible Assets	Share and Debt Issuance Costs	Biological Assets	Non-capital Losses	Total deferred income tax asset (liability)
Balance, December 31, 2023	112	104	(229)	14	-
Recognized in loss and comprehensive loss	(112)	(104)	229	(14)	-
Balance, December 31, 2024	-	-	-	-	-

The Company has the following unrecognized deductible temporary differences:

Year ended December 31,	2024	2023
Non-capital loss carryforwards and other temporary differences	97,638	52,662
Total	97,638	52,662

22. Income taxes (continued)

As of December 31, 2024, the Company has non-capital losses of \$97.6 million (2023 - \$52.7 million) which begin to expire in 2029. These losses are available for deduction against future taxable income in Canada, and expire in the following years:

2029	31
2030	163
2031	-
2032	2,273
2033	432
2034	13,216
2035	3,682
2036	1,186
2037	848
2038	2,614
2039	51,351
2040	7,502
2041	119
2042	5,368
2043	8,582
2044	270
Total non-capital loss carryforwards	97,638

23. Related party transactions

Transactions with related parties

During the year ended December 31, 2024, the Company incurred \$nil (2023 - \$0.6 million) in inventory purchases used in the normal operations of the Company from a company owned by directors of the Company. The amount recorded in trade payable to the related company at December 31, 2024 was \$nil (2023 - \$0.5 million). The Company also sold \$nil (2023 - \$0.5 million) in non-cannabis product in the normal operations of the Company to a company owned by directors of the Company. The amount recorded in trade receivable to the related company at December 31, 2024 was \$nil (2023 - \$0.5 million).

Compensation of key management personnel

The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company's executive management team as well as board and related committee directors.

Year ended December 31,	2024	2023
Cash-based compensation	1,715	2,283
Share-based compensation	(403)	1,443
Total	1,312	3,726

The cash-based compensation is short-term in nature and the share-based compensation items are comprised of stock options, equity-settled restricted share units, cash-settled restricted share units and cash-settled share units as discussed in Note 16.

24. Supplemental cash flow disclosures

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

December 31,	2024	2023
Accounts receivable	2,500	2,948
Other current assets	781	(1,329)
Biological assets	15,372	14,908
Inventory	(12,112)	(23,966)
Other long-term assets	(3,144)	947
Accounts payable and accrued liabilities	(7,801)	(273)
Other current liabilities	(1,623)	1,568
Other long term liabilities	-	735
Change in investing non-cash working capital	-	22
Total	(6,027)	(4,440)

December 31,	2024	2023
Working capital change relating to operating activities	(6,027)	(4,440)
Working capital change relating to investing activities	-	22
Total	(6,027)	(4,418)

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

December 31,	2024	2023
Non-cash changes:		
Accretion financing charges	49	99
Lease additions	6,245	4,805
Balance, end of year	6,294	4,904

25. 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. 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 December 31, 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. Cash-settled share-based instruments are re-measured at each reporting date, with changes in fair value recognized in the consolidated statements of income (loss) and comprehensive income (loss).

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.

25. Financial instruments and risk management (continued)

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

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

Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk from its cash, accounts receivable and investments. The maximum credit exposure is limited to their carrying amounts at the statement of financial position date. For the year ended December 31, 2024, the maximum credit exposure is \$18.8 million (2023 - \$17.1 million).

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

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 December 31, 2024 and December 31, 2023, net of expected credit losses.

December 31,	2024	2023
Trade Receivables		
0 - 30 days	10,348	12,323
31 - 60 days	524	1,867
61 - 90 days	564	286
Over 90 days	1,657	725
Total	13,093	15,201
Allowance for doubtful accounts	(1,658)	(1,817)
Promissory note receivable	181	-
Accrued accounts receivable	79	46
Receiver general	91	234
Balance, end of period	11,786	13,664

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 27 for further details on capital management.

In addition to the commitments outlined in Note 26, the Company has the following contractual obligations:

	Total	<1 Year	<2 Years	<3 Years	<4 Years	<5 Years	Hereafter
Accounts payable and accrued liabilities	38,195	38,195	-	-	-	-	-
Lease liabilities ⁽ⁱ⁾	12,531	2,703	2,900	3,868	1,135	954	971
Loans and borrowings ⁽ⁱⁱ⁾	46,582	10,465	4,434	4,434	4,434	4,434	18,382
Total	97,308	51,363	7,334	8,302	5,569	5,388	19,353

(i) Includes the interest portion of lease obligations.

(ii) Loans and borrowing balances are based on the credit facility in place at December 31, 2024. Included are the estimated interest and principal repayments, based on current amounts outstanding and current interest rates at December 31, 2024. Both are variable in nature.

25. Financial instruments and risk management (continued)

Market risk

a) Currency risk

The operating results and financial position of the Company are reported in Canadian dollars 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 December 31, 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 (2023 - \$58 thousand).

26. Commitments and contingencies

(a) Material commitments as at December 31, 2024:

The Company is committed to total payment of \$nil (2023 – \$1.4 million) 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 December 31, 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.

On November 14, 2024, the Company entered into a facility terms and conditions agreement with a Canadian insurance provider to obtain a commercial bond surety. The bond has an annual term, set to expire on November 14, 2025. The agreement provides the Company with a maximum coverage of \$2 million, subject to an annual premium of 3%. The surety bond was obtained in compliance with the Canada Revenue Agency's excise tax regulations for the commercial distribution of cannabis products across Canada.

(c) Contingencies as at December 31, 2024:

From time to time, the Company is involved in various claims and legal actions arising in the ordinary course of its operations. The following outcomes of these matters, which are virtually certain at the reporting date, has been recorded by the Company as follows:

In October 2024, the Company recognized a litigation settlement receivable of \$75 thousand related to a settlement award against Royalmax Biotechnology Canada for the infringement of the Company's intellectual property rights. The settlement amount was agreed upon in October 2024, and payment is expected to be received in 2025.

27. Capital management

The Company's objectives when managing its capital are to ensure it has adequate 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 December 31, 2024, the Company's total capital \$101.5 million (2023 - \$95.0 million) consisting of current and long-term debt and share capital.

As disclosed in Note 14, the Company's debt financing is subject to financial covenants. As at December 31, 2024, the Company is in compliance with all covenants. As at December 31, 2024, the Company is not subject to externally imposed capital requirements.

28. Subsequent events

On January 21, 2025, the Company granted an aggregate of 25,760,880 stock options (each, an "Option") to certain officers and employees of the Company in accordance with the Company's stock option plan.

Each Option is exercisable for one common share in the capital of the Company (a "Share") at a price of either \$0.13 or \$0.075 per Share, depending on the grant. This is a normal-course grant that comprises part of the long-term compensation and employee retention incentives program provided by the Company. One tranche of the Options will vest as of the date hereof, while the remaining tranches will vest in three equal nine (9) month installments commencing on October 21, 2025, with all of the Options expiring on January 21, 2028.