



Humble & Fume Inc.

Consolidated Financial Statements
Three Months Ended
September 30, 2022 and 2021

humble
 **fume**

Humble & Fume Inc.

Interim Condensed Consolidated Financial Statements

Three Months Ended September 30, 2022 and 2021

(Unaudited – Expressed in Canadian dollars)

Humble & Fume Inc.

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September 30, 2022 and 2021

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Humble & Fume Inc.

September 30, 2022 and 2021

NOTICE TO READER

These interim condensed consolidated financial statements of the Company have been prepared by management and approved by the Board of Directors of the Company. In accordance with National Instrument – 51-102, Part 4, subsection 4.3(3)(3), released by the Canadian Securities Administrators, the Company discloses that its external auditor has not reviewed these interim condensed consolidated financial statements, notes to the interim condensed consolidated financial statements, or the related Management's Discussion and Analysis.

Humble & Fume Inc.**Interim Condensed Consolidated Statements of Financial Position**

(unaudited) (in Canadian dollars)

As at September 30, 2022 and 2021

		September 30, 2022	June 30, 2022 (Audited)
ASSETS			
Current Assets			
Cash		\$ 5,411,344	\$ 6,304,547
Accounts receivable	Note 5	10,500,482	6,185,061
Prepaid expenses and deposits	Note 6	5,034,402	3,784,123
Inventories	Note 7	13,685,533	15,382,483
Taxes recoverable	Note 22	—	291,037
Promissory notes receivable -current portion	Note 8	405,042	—
		35,036,803	31,947,251
Non-current Assets			
Due from related parties	Note 15	329,260	327,958
Promissory notes receivable -long term portion	Note 8	59,347	—
Right of use assets	Note 9	2,988,766	1,687,369
Property, plant and equipment	Note 9	1,783,009	1,197,433
Intangible assets	Note 10	1,378,924	1,296,332
TOTAL ASSETS		\$ 41,576,109	\$ 36,456,343
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 6,647,647	\$ 8,030,744
Lease liability-current portion	Note 11	284,359	179,761
		6,932,006	8,210,505
Non-current Liabilities			
Lease liability-long term portion	Note 11	2,998,049	1,744,870
Loan payable	Note 12	1,881,841	—
Total Liabilities		11,811,896	9,955,375
Shareholders' equity			
Share capital	Note 13	81,558,086	81,372,069
Contributed surplus	Note 13	11,031,761	10,931,053
Warrants	Note 13	1,705,608	1,649,563
Cumulative translation adjustment		(337,275)	(121,045)
Deficit		(73,027,414)	(69,398,619)
Total equity attributable to shareholders		20,930,766	24,433,021
Non-controlling interest	Note 21	8,833,447	2,067,947
Total Shareholders' Equity		29,764,213	26,500,968
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 41,576,109	\$ 36,456,343

Commitments and contingencies (Note 14)

Subsequent event (Note 24)

On behalf of the Board:

Director

Director

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

Humble & Fume Inc.**Interim Condensed Consolidated Statements of Loss and Comprehensive Loss**

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

		2022	2021
Sale of products revenue	Note 16	\$ 17,741,555	\$ 17,144,671
Service revenue	Note 16	654,965	906,961
Total revenue		18,396,520	18,051,632
Cost of sale of product revenue		16,199,633	13,864,725
Gross margin		2,196,887	4,186,907
Operating Expenses			
General and administration		1,647,295	1,432,461
Sales and marketing		898,873	355,541
Salaries and wages		4,169,046	3,412,682
Operations and customer support		1,497,616	284,387
Depreciation and amortization	Note 9	205,318	260,506
Share based payments	Note 13	307,209	495,924
Restructuring charge	Note 22	166,701	—
		8,892,058	6,241,501
Loss from operations		(6,695,171)	(2,054,594)
Other (income) expenses:			
Finance expenses	Note 17	113,687	62,883
Other (income) expenses		(31,157)	(2,273)
Foreign exchange (gain) loss		(2,355,471)	(437,160)
Total other (income) expense		(2,272,941)	(376,550)
Loss before provision for income taxes		(4,422,230)	(1,678,044)
Current income tax expense (recovery)		307,065	(10,271)
Deferred income tax recovery		—	—
Provision for (recovery of) income taxes		(307,065)	(10,271)
Net loss for the period		(4,729,295)	(1,667,773)
Cumulative translation adjustment		(216,230)	(205,386)
Comprehensive loss for the period		\$ (4,945,525)	\$ (1,873,159)
Comprehensive loss for the period attributable to:			
Shareholders		\$ (3,845,025)	\$ (1,873,159)
Non-controlling interest	Note 21	(1,100,500)	—
		\$ (4,945,525)	\$ (1,873,159)
Loss per share- basic		\$(0.03)	\$(0.02)
Weighted average number of common shares		124,158,924	104,528,625

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

Humble & Fume Inc.
Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

	Number of shares	Share capital	Warrants	Contributed surplus	Cumulative translation adjustment	Retained earnings (Deficit)	Non- controlling interest	Total
Balance, June 30, 2021	103,937,304	71,245,135	1,649,563	9,966,664	256,069	(53,809,311)	—	29,308,120
Exercise of stock options	202,500	135,858	—	(77,133)	—	—	—	58,725
Share based payments	—	—	—	495,925	—	—	—	495,925
Shares issued on vesting RSUs	439,825	335,762	—	(513,914)	—	—	—	(178,152)
Cumulative translation on foreign operation	—	—	—	—	(205,386)	—	—	(205,386)
Net loss for the period	—	—	—	—	—	(1,667,773)	—	(12,909,515)
Balance, September 30, 2021	104,579,629	71,716,755	1,649,563	9,871,542	50,683	(55,447,084)	—	27,811,459
	Number of shares	Share capital	Warrants	Contributed surplus	Cumulative translation adjustment	Retained earnings (Deficit)	Non- controlling interest	Total
Balance, June 30, 2022	123,939,882	81,372,069	1,649,563	10,931,053	(121,045)	(69,398,619)	2,067,947	26,500,968
Share based payments	—	—	—	307,209	—	—	—	307,209
Non-controlling interest	—	—	—	—	—	—	7,866,000	7,866,000
Shares issued on vesting RSUs	221,449	186,017	—	(206,501)	—	—	—	(20,484)
Warrants issued on loan payable advance	—	—	56,045	—	—	—	—	56,045
Cumulative translation on foreign operation	—	—	—	—	(216,230)	—	—	(216,230)
Net loss for the period	—	—	—	—	—	(3,628,795)	(1,100,500)	(4,729,295)
Balance, September 30, 2022	124,161,331	81,558,086	1,705,608	11,031,761	(337,275)	(73,027,414)	8,833,447	29,764,213

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

Humble & Fume Inc.**Interim Condensed Consolidated Statements of Cash Flows**

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

	2022	2021
Cash flows from (used in) operating activities:		
Consolidated net loss for the period	\$ (4,729,295)	\$ (1,667,773)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization (Note 9)	205,318	260,506
Credit loss (Note 5)	3,008	(1,882)
Provision (reversal of) obsolete inventory (Note 7)	(315,086)	10,366
Interest and accretion not paid in cash	87,797	76,027
Share based compensation (Note 13)	307,209	495,924
Change in non-cash operating working capital related to operations (Note 18)	(4,648,732)	(1,789,366)
Net cash used in operating activities	(9,089,781)	(2,616,198)
Cash flows generated from (used in) investing activities		
Additions to property, plant and equipment (Note 9)	(595,413)	(7,468)
Promissory notes receivable advance	(464,389)	—
Advances to related parties (Note 15)	(1,302)	(1,487)
Net cash provided from (used in) investing activities	(1,061,104)	(8,955)
Cash flows from (used in) financing activities:		
Proceeds from exercise of stock options	—	58,725
Shares issued on vesting RSUs, net of share issue costs	(20,484)	(178,152)
Loan payable advance, net of transaction costs	1,937,886	—
Lease payments	(154,390)	(225,521)
Proceeds from non-controlling interest (Note 21)	7,866,000	—
Net cash provided from financing activities	9,629,012	(344,948)
Increase (decrease) in cash	(521,873)	(2,970,101)
Exchange rate changes	(371,330)	(211,230)
Cash, beginning of period	6,304,547	9,654,551
Cash, end of period	5,411,344	6,473,220

For the period ended September 30, 2022, the Company paid interest of \$nil (September 30, 2021- \$nil) and tax of \$nil (September 30, 2021- \$nil).

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

Humble & Fume Inc.

Notes to the Interim Condensed Consolidated Financial Statements

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

1. Nature of operations and background information

Humble & Fume Inc. (formerly Canada Iron Inc.) (the “Company”) is a North American distributor of cannabis related products and accessories and was incorporated on February 15, 2007 under the Business Corporations Act of Ontario. The Company is principally engaged in the wholesale of cannabis related products and accessories to businesses, as well as retail sales directly to consumers. The Company’s head and registered office is located at 179G Degrassi Street, Toronto, Ontario M4M 2K8. The Company’s U.S. head office is located at 100 E San Antonio Street, Suite 103, San Marcos, Texas 78666.

On June 14, 2021, Canada Iron Inc. (“Canada Iron”) and a private Manitoba company named Humble & Fume Inc. (“Private Humble & Fume”) completed an amalgamation structured as a three-cornered amalgamation whereby Private Humble & Fume was amalgamated with a newly incorporated subsidiary of Canada Iron, forming the Company. Immediately prior to the amalgamation, Canada Iron completed a consolidation of the Canada Iron common shares on the basis of one post-consolidated Canada Iron share for every 243 pre-consolidation Canada Iron common shares and changed its name from “Canada Iron Inc.” to “Humble & Fume Inc.”. Each Private Humble & Fume share was exchanged to one common share of the Company. Due to the terms of the exchange ratio, the previous shareholders of Private Humble & Fume acquired a controlling interest in Canada Iron and as such, the amalgamation has been accounted for as a reverse takeover transaction with Private Humble & Fume being the resulting issuer for financial reporting purposes. The amalgamation resulted in all the issued and outstanding shares of Private Humble & Fume being exchanged for one common share of the Company. Holders of Private Humble & Fume stock options received one replacement stock option, with each option exercisable for one common share of the Company. As a result of the completion of this transaction, the former holders of Private Humble & Fume shares hold approximately 97.86% of the issued and outstanding common shares and former holders of Canada Iron shares now hold 2.14% of the common shares of the Company. The Company resumed trading on the Canadian Stock Exchange on June 16th, 2021 under the new trading symbol “HMBL”.

These interim condensed consolidated financial statements were approved and authorized by the Board of Directors of the Company on November 29th, 2022.

Impacts of COVID-19

The global outbreak of COVID-19 has had a significant impact on businesses through the restrictions put in place by the Canadian and American authorities regarding travel, business operations and isolation/quarantine orders. The Company’s business is dependent on a number of factors which could be adversely disrupted by, among others, major health issues or pandemics. In particular, major health issues and pandemics, such as the global impact of COVID-19. Given the ongoing and dynamic nature of the circumstances, it is difficult to predict the impact of the COVID-19 outbreak on the Company’s business. These factors are beyond the Company’s control, may adversely affect us and our suppliers or cause disruptions to their and the Company’s businesses and may impact their ability to supply us.

The overall North American cannabis retail, headshop, and smoke shop markets experienced lower customer volumes due to a myriad of factors. Given the uncertainties associated with the pandemic, numerous retail channels and customers in both Canada and the U.S. began closing or pivoted to a “click and collect” model with curbside pickup or delivery. The onset of these obstacles to retail channels, further compounded by disruptions to global and local economies due to ‘stay at home’ orders, quarantine policies, restrictions on travel, and lower consumer discretionary spending, ultimately resulted in lower sales volumes than forecasted. While in both Canada and the U.S. have relaxed the restrictions implemented in response to COVID-19 pandemic, the situation remains dynamic and subject to rapid and possibly material changes.

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

Humble & Fume Inc.

Notes to the Interim Condensed Consolidated Financial Statements

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

2. Basis of presentation

2.1 Statement of compliance

The Company's interim condensed consolidated financial statements have been prepared in accordance with and using accounting policies in full compliance with the International Financial Reporting Standard 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB").

These interim condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended June 30, 2022, prepared in accordance with International Financial Reporting Standards ("IFRS"). The accounting policies adopted in these interim condensed consolidated financial statements are consistent with those disclosed in the Company's audited financial statements for the year ended June 30, 2022. Refer to these audited financial statements for significant accounting policies and future changes in accounting policies which remained unchanged as at September 30, 2022.

2.2 Basis of measurement

These interim condensed consolidated financial statements have been prepared on the going concern basis, under the historical cost convention, except for certain financial instruments which are measured at fair value. Historical cost is generally based on fair value of the consideration given in exchange for assets.

2.3 Basis of consolidation

The interim condensed consolidated financial statements for the three months ended September 30, 2022 and September 30, 2021 include the accounts of the Company, its wholly-owned subsidiaries, on a consolidated basis after elimination of intercompany transactions and balances.

Control exists when the Company has power over an investee, when the Company is exposed, or has rights, to variable returns from the investee, and when the Company has the ability to affect those returns through its power over the investee.

Non-controlling interests ("NCI") are the portion of equity ownership in subsidiaries not attributable to the Company's shareholders. NCI and its attributable net income are shown separately in the interim condensed consolidated statements of loss and comprehensive loss, statements of financial position and changes in shareholders' equity.

The following are the Company's subsidiaries and a combined entity that are included in these interim condensed consolidated financial statements as of September 30, 2022 and 2021:

Subsidiaries	Jurisdiction	September 30, 2022	September 30, 2021
B.O.B. Headquarters Inc. ("BOB HQ")	Manitoba	100%	100%
Fume Labs Inc. ("Fume Labs")	Ontario	100%	100%
PWF Holdco Inc. ("PWF")	Delaware	100%	100%
Humble Cannabis Solutions Inc.	Ontario	100%	100%
Windship Trading, LLC ("Windship")	Texas	100%	100%
HC Solutions Holdings Inc.	Delaware	55%	N/A
HC Solutions of California LLC	Delaware	55%	N/A
Cabo Connection	California	55%	N/A

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

Humble & Fume Inc.

Notes to the Interim Condensed Consolidated Financial Statements

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

2. Basis of presentation (continued)

The functional currency of the Company is the Canadian Dollar which is also the presentation currency of the interim condensed consolidated financial statements. The functional currency of BOB HQ, Humble Cannabis Solutions Inc. and Fume Labs Inc. is the Canadian dollar and the functional currency of PWF, Windship, HC Solutions Holdings Inc., HC Solution of California LLC and Cabo Connection is the US dollar.

In 2020, Fume Labs Inc. entered into a joint arrangement with another party for the production and sale of certain products. The Company's participation in the joint arrangement classified as a joint operation, is accounted for in the interim condensed consolidated financial statements by reflecting the Company's share of the assets, liabilities, revenues and expenses arising from the joint operations of Fume Labs Inc. See Note 23.

3. Use of management estimates, judgments and measurement uncertainty

The preparation of these interim condensed consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the interim condensed consolidated financial statements and reported amounts of revenues and expenses during the reported period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenues, and expenses. Management uses various factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes differ from these estimates under different assumptions and conditions.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended June 30, 2022.

4. New standards and interpretations to be adopted in future periods

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for future accounting periods. Updates that are not applicable or are not consequential to the Company have been excluded.

Amendments to IAS 1 – Presentation of financial statements: classifications of liabilities as current or noncurrent

In January 2020, the IASB issued amendments to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions that exist at the end of a reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective January 1, 2023, with early adoption permitted. The amendments are to be applied retrospectively. The Company does not intend to early adopt these amendments and is currently assessing the impact of these amendments on its consolidated financial statements.

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

Humble & Fume Inc.**Notes to the Interim Condensed Consolidated Financial Statements**

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

5. Accounts receivable

	September 30, 2022	June 30, 2022
Accounts receivable	\$11,199,531	\$6,881,102
Expected credit loss	(699,049)	(696,041)
	<u>\$10,500,482</u>	<u>\$6,185,061</u>

Expected credit loss		
	September 30, 2022	June 30, 2022
Balance at beginning of the year	696,041	158,118
Provided during the year	3,008	577,551
Written off during the year as uncollectible	—	(39,628)
Balance at end of the year	<u>699,049</u>	<u>696,041</u>

During the year ended June 30, 2022, the Company provided for \$566,380 of accounts receivable held in Fume Labs. See Note 23.

6. Prepaid expenses and deposits

	September 30, 2022	June 30, 2022
Deposits on inventory	\$ 2,898,362	\$ 2,567,325
Other Prepaid Expenses	2,136,040	1,216,798
	<u>\$ 5,034,402</u>	<u>\$ 3,784,123</u>

The Company paid deposits for inventory that will be received within the next 12 months. During the year ended June 30, 2022, the Company wrote-off \$61,477 of prepaid expenses and deposits held by Fume Labs. See Note 23.

7. Inventories

	September 30, 2022	June 30, 2022
Finished goods and components	\$14,338,376	\$16,350,412
Inventory provision	(652,843)	(967,929)
	<u>\$13,685,533</u>	<u>\$15,382,483</u>

During the three months ended September 30, 2022, the Company recognized \$15,478,586 (2021 – \$13,159,927) of inventories as an expense and recorded a net (pick up) write down of inventory of (\$315,086) (2021 – \$10,366) to net realizable value. These expenses are included in cost of sale of product revenue on the Interim Condensed Consolidated Statements of Loss and Comprehensive Loss. During the year ended June 30, 2022, the Company wrote-off \$823,109 of inventory held by Fume Labs. See Note 23.

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

Humble & Fume Inc.

Notes to the Interim Condensed Consolidated Financial Statements

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

8. Promissory notes receivable

Promissory notes receivable are unsecured, bear interest at a rate of 2.5%-6.5% per annum, and mature between May 2023 and November 2023.

9. Property, plant and equipment

Cost	Computer Hardware	Leasehold Improvements	Automobiles and Trailer	Computer Software	Furniture & Equipment	Right of use Asset	Total
As at June 30, 2021	172,096	1,569,595	60,405	7,734	1,608,387	3,220,030	6,638,247
Additions	98,452	454,763	412,352	35,065	77,652	871,407	1,949,691
Disposals	—	—	(28,514)	—	—	(1,286,291)	(1,314,805)
Impairment	(12,715)	(1,395,397)	—	—	(1,181,655)	—	(2,589,767)
Currency translation	—	—	—	—	1,584	11,109	12,693
As at June 30, 2022	257,833	628,961	444,243	42,799	505,968	2,816,255	4,696,059
Additions	14,620	264,936	190,527	7,301	118,029	1,310,630	1,906,043
Disposals	—	—	—	—	—	—	—
Impairment	—	—	—	—	—	—	—
Currency translation	—	—	—	—	67,400	118,848	186,248
As at September 30, 2022	272,453	893,897	634,770	50,100	691,397	4,245,733	6,788,350

Accumulated Depreciation	Computer Hardware	Leasehold Improvements	Automobiles and Trailer	Computer Software	Furniture & Equipment	Right of use Asset	Total
As at June 30, 2021	119,521	429,738	51,003	3,009	591,808	1,461,234	2,656,313
Disposals	—	—	(27,902)	—	—	(805,843)	(833,745)
Impairment	(8,335)	(429,937)	—	—	(422,760)	—	(861,032)
Depreciation	37,103	147,703	27,983	4,367	159,070	473,495	849,721
As at June 30, 2022	148,289	147,504	51,084	7,376	328,118	1,128,886	1,811,257
Disposals	—	—	—	—	—	—	—
Impairment	—	—	—	—	—	—	—
Depreciation	15,042	18,465	33,087	1,904	8,739	128,081	205,318
As at September 30, 2022	163,331	165,969	84,171	9,280	336,857	1,256,967	2,016,575

Net Carrying Amount	Computer Hardware	Leasehold Improvements	Automobiles and Trailer	Computer Software	Furniture & Equipment	Right of use Asset	Total
As at June 30, 2021	52,575	1,139,857	9,402	4,725	1,016,579	1,758,796	3,981,934
As at June 30, 2022	109,544	481,457	393,159	35,423	177,850	1,687,369	2,884,802
As at September 30, 2022	109,122	727,928	550,599	40,820	354,540	2,988,766	4,771,775

The right of use assets relates to leased properties.

During the year ended June 30, 2022, the Company recorded an impairment on the net book value of the property, plant and equipment held in Fume Labs in the amount of \$1,728,735. See Note 24.

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

Humble & Fume Inc.**Notes to the Interim Condensed Consolidated Financial Statements**

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

10. Intangible assets

Cost	Licences	Total
As at June 30, 2021	–	–
Additions	1,296,332	1,296,332
Disposals	–	–
Currency translation	–	–
As at June 30, 2022	1,296,332	1,296,332
Additions	–	–
Disposals	–	–
Currency translation	82,592	82,592
As at September 30, 2022	1,378,924	1,378,924

Accumulated Depreciation	Licences	Total
As at June 30, 2021	–	–
Disposals	–	–
Depreciation	–	–
As at June 30, 2022	–	–
Disposals	–	–
Depreciation	–	–
As at September 30, 2022	–	–

Net Carrying Amount	Licences	Total
As at June 30, 2021	–	–
As at June 30, 2022	1,296,332	1,296,332
As at September 30, 2022	1,378,924	1,378,924

11. Lease liability

The Company leases assets, including office buildings and equipment. The lease liability as at September 30, 2022 is as follows:

Balance, June 30, 2021	\$ 2,095,858
Additions	871,407
Disposal (net)	(375,045)
Interest expense	239,821
Lease payments	(924,270)
Effects of foreign exchange	16,860
Balance, June 30, 2022	\$ 1,924,631
Additions	1,310,630
Interest expense	87,797
Lease payments	(154,390)
Effects of foreign exchange	113,740
Balance, September 30, 2022	\$ 3,282,408

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

Humble & Fume Inc.**Notes to the Interim Condensed Consolidated Financial Statements**

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

11. Lease liability (continued)

Current	284,359
Non-current	2,998,049
Balance, September 30, 2022	\$ 3,282,408

During the year ended June 30, 2022, the Company exited four leases and the related lease liability was reduced. A net loss on disposal of right of use assets and lease liabilities of \$106,547 was recognized in restructuring charge on the interim condensed consolidated statements of loss and comprehensive loss.

The following table sets out a maturity analysis of the lease payments payable, showing the undiscounted lease payments to be paid on an annual basis, reconciled to the lease liability. The Company used rates between 14%-15% in the valuation of the building and equipment leases.

Less than one year	\$ 758,435
One to two years	807,326
Two to three years	816,819
Three to four years	834,460
Four to five years	854,636
Thereafter	1,053,852
Total undiscounted lease payments payable	\$ 5,125,528
Less: impact of present value	(1,843,120)
Balance, September 30, 2022	\$ 3,282,408

12. Loan payable

Loan payable as at September 30, 2022 is as follows:

Loan balance

Balance, June 30, 2022	\$ —
Advances	2,000,000
Interest expense accrual	19,797
Balance, September 30, 2022	2,019,797

Deferred financing costs

Balance, June 30, 2022	—
Additions	(143,518)
Amortization of deferred financing costs	5,562
Balance, September 30, 2022	(137,956)
Balance, September 30, 2022	\$ 1,881,841

Current	—
Non-current	1,881,841
Balance, September 30, 2022	\$ 1,881,841

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

Humble & Fume Inc.**Notes to the Interim Condensed Consolidated Financial Statements**

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

12. Loan payable (continued)

On September 1, 2022, the Company entered into a loan agreement up to a maximum principal amount of \$2,000,000. The loan bears interest at a rate of 10% per annum, payable bi-annually every six months following the date of the agreement, increasing to 14% per annum if any amount payable is not paid when due. The Loan is secured against the assets of the Company and its subsidiaries. As at September 30, 2022, the Company has been in compliance with all terms and covenants set forth in the loan agreement.

13. Share capital

Authorized – Unlimited number of common shares.

Issued and outstanding – common shares

The share activity for the three months ended September 30, 2022 and year ended June 30, 2022 is as follows:

	Number of shares	Share capital
Balance as at June 30, 2021	103,937,304	\$71,245,135
Exercise of stock options	202,500	135,858
Shares issued on private placement	19,267,169	9,655,007
Shares issued on vesting of RSUs	650,279	441,115
Shares returned to treasury and cancelled	(117,370)	(105,046)
Outstanding as at June 30, 2022	123,939,882	\$81,372,069
Shares issued on vesting of RSUs	221,449	186,017
Outstanding as at September 30, 2022	124,161,331	\$81,558,086

- On November 12, 2021 the Company completed a private placement subscription agreement, whereby the subscriber agrees to purchase 18,795,471 shares of the Company at \$0.53 each for a total gross proceeds of \$9,961,600. The agreement's issuance cost consisted of a cash issuance cost of \$306,592 and a non-cash issuance cost of \$292,453 on 471,698 common shares as per prevailing fair value. The fair value of the cash and non-cash issuance cost was deducted from the share capital for a net common share cost of \$9,655,007 inclusive of compensation shares for a total of 19,267,169 shares issued.
- During the year ended June 30, 2022, employees exercised 202,500 stock options for total proceeds of \$58,725. Previously recognized share based payments of \$77,133 relating to these stock options were reallocated from contributed surplus to share capital. The weighted average share price at the date of exercise was \$0.49.
- During the year ended June 30, 2022, the Company purchased and cancelled 117,370 shares for \$38,782. These shares had an original share cost of \$105,046. The difference of \$66,264 was recorded in contributed surplus.

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

Humble & Fume Inc.**Notes to the Interim Condensed Consolidated Financial Statements**

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

13. Share capital (continued)**Warrants**

The changes in the number of warrants outstanding during the period ended September 30, 2022 and June 30, 2022 and 2021 were as follows:

	Number of warrants	Weighted average exercise price
Outstanding as at June 30, 2021	5,194,500	\$1.40
Outstanding as at June 30, 2022	5,194,500	\$1.40
Issued	750,000	\$0.25
Outstanding as at September 30, 2022	5,944,500	\$1.26

- During the year ended June 30, 2021, upon completion of the reverse acquisition of Canada Iron common shares, a total of 19,563,771 Canada Iron warrants were consolidated into 84,000 warrants of post-consolidated entity valued at \$0.36 per warrant. The fair value of the warrants was based on an iterative Black-Scholes calculation as detailed below.
- On April 1, 2021, 5,110,500 common share purchase warrants were issued relating to a private placement agreement. The purchase warrants are exercisable at \$1.40 per share for a period of 36 months. The purchase warrants were valued at \$0.36 per warrant using Black-Scholes valuation model with the following assumptions: share price \$0.82, volatility 90%, risk-free rate 0.43%, dividend yield 0%. The expected volatility was estimated using the volatility of publicly traded companies the Company considered to be comparable. The risk-free interest rate is based on the government bonds with a term equal to the expected life of the warrants.
- On September 1st, 2022, 750,000 common share purchase warrants were issued relating to a loan agreement. The purchase warrants are exercisable at \$0.25 per share for a period of 36 months. The purchase warrants were valued at \$0.07 per warrant using Black-Scholes valuation model with the following assumptions: share price \$0.15, volatility 96%, risk-free rate 1.44%, dividend yield 0%. The expected volatility was estimated using the volatility of publicly traded companies the Company considered to be comparable. The risk-free interest rate is based on the government bonds with a term equal to the expected life of the warrants.

Share-based payments

The maximum number of shares issued under the plan shall not exceed 10% of the issued and outstanding shares. Equity incentives granted generally vest over one to three years, and typically have a life of ten years. Option grants are determined by the Compensation Committee of the Board with the option price set at no less than 100% of the fair market value of a share on the date of the grant. The continuity of stock options is as follows:

	Weighted Average Number	Weighted Average Exercise Price (CAD)	Weighted Average Remaining Contractual Life (years)
Balance at June 30, 2021	3,661,000	\$0.69	7.53
Granted	4,480,000	\$0.50	9.51
Exercised	(202,500)	\$0.29	-
Expired	(784,500)	\$0.93	-
Balance at June 30, 2022	7,154,000	\$0.67	8.59
Expired	(458,000)	\$0.72	-
Balance at Sep 30, 2022	6,696,000	\$0.61	8.34

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

Humble & Fume Inc.**Notes to the Interim Condensed Consolidated Financial Statements**

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

13. Share capital (continued)

The Company used the Black-Scholes option pricing model to estimate the fair value of the options at the grant date using the following ranges of assumptions:

	September 30, 2022	June 30, 2022
Risk-free interest rate	1.44%-3.19%	1.44%-3.19%
Expected dividend yield	0%	0%
Expected volatility	96.26-102.53%	96.26-102.53%
Expected option life	10 years	10 years
Share price	\$0.35-\$0.60	\$0.35-\$0.60

The volatility rate was based on comparable companies within the same industry. The share price was determined based on the most recent trading price in the public market. The options were valued at the weighted average share price of \$0.50.

The stock-based compensation expense of options was \$304,240 (2021 – \$299,542) for the three months ended September 30, 2022. The number of options exercisable at September 30, 2022 was 2,818,295 (June 30, 2022 – 2,781,653).

The following schedule summarizes options outstanding as at September 30, 2022:

Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Exercise Price	Number Exercisable
\$0.29	405,000	5.51	\$0.29	405,000
\$0.67	450,000	6.08	\$0.67	450,000
\$1.00	265,000	6.35	\$1.00	265,000
\$1.00	300,000	6.62	\$1.00	300,000
\$0.84	45,000	7.96	\$0.84	29,700
\$1.00	851,000	8.72	\$1.00	689,695
\$0.54	1,750,000	8.72	\$0.54	577,500
\$0.35	15,000	8.86	\$0.35	4,950
\$0.39	120,000	8.92	\$0.39	89,850
\$0.43	20,000	8.92	\$0.43	6,600
\$0.50	2,000,000	9.17	\$0.50	-
\$0.40	385,000	9.44	\$0.40	-
\$0.36	45,000	9.46	\$0.36	-
\$0.34	45,000	9.50	\$0.36	-
\$0.61	6,696,000	8.34	\$0.61	2,818,295

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

Humble & Fume Inc.**Notes to the Interim Condensed Consolidated Financial Statements**

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

13. Share capital (continued)

The following schedule summarizes options outstanding as at June 30, 2022:

Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Exercise Price	Number Exercisable
\$0.29	405,000	5.76	\$0.29	405,000
\$0.67	225,000	6.01	\$0.67	225,000
\$0.67	450,000	6.33	\$0.67	450,000
\$1.00	265,000	6.60	\$1.00	265,000
\$1.00	300,000	6.87	\$1.00	300,000
\$0.84	45,000	8.62	\$0.84	15,000
\$1.00	984,000	8.97	\$1.00	463,320
\$0.54	1,750,000	9.02	\$0.54	583,333
\$0.35	15,000	9.12	\$0.35	-
\$0.39	120,000	9.19	\$0.39	75,000
\$0.43	20,000	9.17	\$0.43	-
\$0.60	10,000	9.39	\$0.60	-
\$0.50	2,000,000	9.42	\$0.50	-
\$0.40	430,000	9.69	\$0.40	-
\$0.36	90,000	9.71	\$0.36	-
\$0.34	45,000	9.69	\$0.36	-
\$0.62	7,154,000	8.59	\$0.67	2,781,653

On July 1, 2020, the Company issued 1,552,756 Restricted Share Units (RSU), where one-third vested at completion of the reverse take over, one-third vests on July 1, 2021 and one-third vests on July 1, 2022. The Company also issued 14,962 RSUs where one-third vests on July 1, 2021, one-third vests on July 1, 2022 and one-third vests on July 1, 2023. The RSUs are to be settled with the issuance of common shares once vested. They were valued at a share price of \$0.84 (fair value determined on the most recent private financing as at date of grant).

On July 1st, 2021, the Company granted 20,000 RSUs, where all units vests on Jun 16, 2023. The RSUs were valued at a share price of \$0.80 (fair value determined on the most recent private financing as at date of grant).

On July 5th, 2021, the company issued 250,000 RSUs, where all units vested on the date of issue. The RSUs were valued at a share price of \$0.55 (prevailing trading price).

On November 1st, 2021, the Company granted 25,000 RSUs, where 8,250 RSUs vests on November 1st, 2022 and November 1st, 2023 and 8,500 RSUs vests on November 1st, 2024. The RSUs were valued at a share price of \$0.58 (prevailing trading price).

On April 1st, 2022, the company granted 204,082 RSUs, where all units vested on the date of issue. The RSUs were valued at a share price of \$0.49 (prevailing trading price).

For the three months ended September 30, 2022, the share based payments expense was \$2,970 (September 30, 2021 – \$196,382) for the RSUs.

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

Humble & Fume Inc.**Notes to the Interim Condensed Consolidated Financial Statements**

(unaudited) (in Canadian dollars)

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13. Share capital (continued)

The RSU activity during the period is as follows:

	Number of RSUs
June 30, 2021	1,055,128
Granted	479,082
Forfeited	(10,175)
Vested	(980,027)
June 30, 2022	544,008
Forfeited	(210,753)
Vested	(283,167)
September 30, 2022	50,088

The following table displays the vesting for outstanding RSUs:

	Vested	Unvested	Total
June 30, 2021	532,320	1,055,128	1,587,448
Granted	479,082	—	479,082
Vested	500,945	(500,945)	—
Forfeited	—	(10,175)	(10,175)
June 30, 2022	1,512,347	544,008	2,056,355
Vested	283,167	(283,167)	—
Forfeited	—	(210,753)	(210,753)
June 30, 2022	1,795,514	50,088	1,845,602

Of the total 283,167 shares vested, all units were settled in shares with a total of 61,718 units withheld in lieu of tax withholdings resulting in a net share release of 221,448.

14. Commitments and contingencies

Office and Operating leases:

The Company leases certain business facilities and equipment from third parties under lease agreements that contain minimum rental provisions and expire through 2029. Some of these leases also contain renewal provisions. These lease commitments were recorded as lease liabilities under IFRS 16. Rent was also paid in situations where an agreement did not exist or were short term in nature. Such leases were excluded from IFRS 16 treatment. Rent expense is calculated on straight-line basis over the terms of the leases. The Company's net rent expense for the three months ended September 30, 2022 and 2021 totaled approximately \$96,063 and \$26,788 respectively.

Legal matters

From time to time, the Company is named as a party to claims or involved in proceedings, including legal, regulatory and tax related, in the ordinary course of its business. While the outcome of these matters may not be estimable at the reporting date, the Company makes provisions, where possible, for the estimated outcome of such claims or proceedings. Should a loss result from the resolution of any claims or proceedings that differs from these estimates, the difference will be accounted for as a charge to profit or loss in that period.

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

Humble & Fume Inc.**Notes to the Interim Condensed Consolidated Financial Statements**

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

14. Commitments and contingencies (continued)

During the year ended June 30, 2022, the Company has begun legal action against Hexo Corp ("Hexo") due to a material breach in the Supply and Services Agreement (the "Agreement"). The Agreement was entered into between Fume Labs and 48North Cannabis Corp ("48North"), who was acquired by Hexo on May 17, 2021. Following the acquisition, Hexo announced the closure of the Brantford cannabis processing facility. Per the Agreement, Hexo is required to grant access to Fume Labs to the facility in order to perform the extraction of cannabis distillate, the filling, packaging and sale of cannabis vaporizer cartridges. The Agreement has a minimum six-year initial term which would expire on January 21, 2026. On February 9, 2022, the Company notified Hexo that the Agreement is terminated due to uncured material breach. On July 5th, 2022, a Notice of Arbitration was filed. The outcome of this legal action is uncertain, therefore no asset has been recognized. There is no countersuit against the Company therefore there is no exposure for potential loss.

15. Due to related parties and related party transactions**a) Due from Related Parties**

Each of the following related parties are related because of common control across all entities. The Due from Shareholders includes a Promissory Note for \$325,000 (2022- \$325,000) due from one shareholder. The Note was renewed on April 26, 2022 and becomes due on April 26, 2024. The Note accrues interest at the rate of 1.59%.

	September 30, 2022	June 30, 2022
Due from Shareholders	329,260	327,958
Due from related parties	\$ 329,260	\$ 327,958

b) Related Party Transactions

Key management includes the Company's directors and members of the executive management team. Total compensation of key management personnel and directors was \$419,965 for the quarter ended September 30, 2022 (2021 – \$602,893), which included \$212,592 of salaries (2021 – \$283,215) and \$207,373 (2021 – \$319,678) in stock-based compensation expense.

The Company has entered into Lease Agreements with RKCB Holdings Inc. ("RKCB") for the rental of premises at 915 Douglas St. and 18th Street. RKCB is controlled by a member of the Company's executive management. During the three months ended September 30, 2022, the Company paid \$nil in rent and common area charges (2021 – \$90,324). As of February 2022 the premises were no longer owned by a related party.

During the three months ended September 30, 2022, the Company purchased \$nil (2021 – \$248,963) of inventory from a company that was owned and controlled by two shareholders.

The Company paid for credit card processing services from a corporation that purchases services from another entity, in which a related party holds a minority interest. During the three months ended September 30, 2022, the Company purchased \$nil (2021 – \$225,845) of these services, of which \$nil (2021 – \$18,067) of these services are purchased from the entity that the related party has a minor stake.

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

Humble & Fume Inc.**Notes to the Interim Condensed Consolidated Financial Statements**

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16. Geographical information

The Company operates in segment in two geographical locations: Canada and USA. The Company has a diversified customer base and is not susceptible to risks associated with customer concentration. The following table presents the Company's revenues by location.

	September 30, 2022	September 30, 2021
Revenue		
Canada	\$ 6,340,247	\$ 8,629,843
USA	12,056,273	9,421,789
Total	\$ 18,396,520	\$ 18,051,632

The following table presents the Company's assets by location.

	September 30, 2022	September 30, 2021
Non-current Assets		
Canada	\$ 1,336,142	\$ 3,253,188
USA	5,203,164	497,681
Total	\$ 6,539,306	\$ 3,750,869

17. Finance (income) expense

	September 30, 2022	September 30, 2021
Interest income	\$ (5,109)	\$ (13,120)
Interest expense	118,796	76,003
Net finance expense	\$ 113,687	\$ 62,883

Interest income includes interest on interest bearing bank account of \$3,383 (2021 – \$11,438), service charge income on delinquent customer accounts of \$nil (2021 – \$49) and interest income on promissory note to related party of \$1,302 (2021 – \$1,487).

The interest expense also includes interest on lease liability of \$87,797 (2021 – \$76,003) and accrued interest expense on loan payable of \$19,797 (2021 – \$nil) .

18. Changes in other non-cash operating working capital items

The change in non-cash operating working capital comprises the following:

	September 30, 2022	September 30, 2021
Accounts receivable	\$ (4,318,429)	\$ (1,982,740)
Prepaid expenses and deposits	(1,250,279)	(181,180)
Inventories	2,012,036	(1,077,947)
Accounts payable and accrued liabilities	(1,383,097)	834,887
Taxes recoverable	291,037	617,614
	\$ (4,648,732)	\$ (1,789,366)

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

Humble & Fume Inc.**Notes to the Interim Condensed Consolidated Financial Statements**

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

19. Management of capital

The Company's objectives when managing capital are:

- To ensure the Company continues to operate as a going concern to maximize the return on investment to shareholders;
- To ensure sufficient liquidity to meet the Company's financial obligations and to execute its operating and strategic plans; and
- To minimize the after-tax cost of capital while taking into consideration current and future industry, markets and economic risks and conditions.

The company defines capital as the aggregate of equity.

The Company manages and adjusts its capital structure considering changes in economic conditions and the risk characteristics of the underlying assets. To maintain and adjust the capital structure, the Company may attempt to issue new shares.

20. Financial instruments

Financial instruments measured at fair value are classified into one of levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value 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 that are not based on observable market data. The derivative liability is valued at fair market value.

As of September 30, 2022				
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	5,411,344	—	—	5,411,344

As of June 30, 2022				
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	6,304,547	—	—	6,304,547

At September 30, 2022 and 2021, the Company's financial instruments consist of cash, accounts receivable, promissory notes receivable, due from related parties, loan payable, accounts payable and accrued liabilities. The fair values of cash, accounts receivable, promissory notes receivable, loan payable, accounts payable and accrued liabilities approximate their carrying values due to the relatively short-term to maturity. The carrying values of due from related parties approximate their fair values because the discount rate used to calculate them approximates market borrowing rates.

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including credit risk, interest rate risk and foreign currency risk) and liquidity risk which has not changed throughout the year. The overall risk management program has not changed throughout the year and focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

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

Humble & Fume Inc.

Notes to the Interim Condensed Consolidated Financial Statements

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

20. Financial instruments (continued)

a) Market risk:

i. Credit risk:

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of trade receivables and due from related parties. The Company's trade receivables are disclosed, net of allowance for doubtful accounts, which the Company accounts for at the specific account level. Credit risk associated with the non-performance of these customers can be directly impacted by a decline in economic conditions, which could impair the customers' ability to satisfy their obligations to the Company.

In order to reduce the exposure to this risk, the Company has credit procedures in place, whereby analyses are performed to control the granting of credit to any new or high-risk customers.

The Company's cash subjects the Company to credit risk. At September 30, 2022, the Company had cash of approximately \$5.4 million held with a number of financial institutions in various bank accounts as per its practice of protecting its capital rather than maximizing investment yield through additional risk. Approximately 97% of the cash is held with either a major Canadian trust company or a large international bank which the Company believes lessens the degree of credit risk.

Management does not believe there is any significant credit risk from any of the Company's customers which have not already been provided for; however, should one of the Company's main customers be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from accounts receivable is equal to their carrying amounts.

The Company no customers comprising more than 10% of trade receivables at September 30, 2022 and three customers comprising 42% of trade receivables at September 30, 2021.

At September 30, 2022 and 2021 the Company does not consider any of its financial assets to be impaired, with the exception of accounts receivable balances and other assets as described in Note 5 for which a provision has been recorded.

At September 30, 2022, \$5,364,915 (2021 – \$1,833,796) of accounts receivable was past due based on contractual terms but not impaired.

The definition of items that are past due is determined by reference to payment terms agreed with individual customers. Management believes that amounts outstanding which have not already been provided for are fully collectible in the future. The aging of accounts receivables at the reporting date was:

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

Humble & Fume Inc.**Notes to the Interim Condensed Consolidated Financial Statements**

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

20. Financial instruments (continued)

ii. Credit risk: (continued)

	September 30, 2022	June 30, 2022
	Gross	Gross
Not past due	\$ 5,135,567	\$ 3,792,826
Past due 1-30 days	2,456,748	825,210
Past due 31-90 days	1,926,221	770,682
Past due 90+ days	1,680,995	1,492,384
	\$ 11,199,531	\$ 6,881,102

Past Due	0 days	1-30 days	31-90	90+	Total
ECL rate	0.27%	0.32%	5.74%	33.69%	
ECL Allowance	\$14,111	\$7,922	\$110,636	\$566,380	\$699,049

The Company reviews financial assets past due on an ongoing basis with the objective of identifying potential matters which could delay the collection of funds at an early stage. Once items are identified as being past due, contact is made with the respective customer to determine the reason for the delay in payment and to establish an agreement to rectify the breach of contractual terms.

iii. Interest rate risk:

The Company's borrowings including loan payable, is not a source of interest rate risk as the interest rate on the borrowings are fixed and not referenced to a specific rate, such as prime rate.

iv. Foreign currency risk:

The Company generates sales of product in Canadian and U.S. dollars and incurs its expenses in both U.S. and Canadian dollars and is therefore exposed to risk from changes in foreign currency rates. In addition, the Company holds financial assets and liabilities in U.S. dollars that expose the Company to foreign exchange risks. The Company has a self-sustaining operation in the U.S. with 66% (2021 – 52%) of its revenue being U.S. dollar denominated. The Company does not utilize any financial instruments or cash management policies to mitigate the risks arising from changes in foreign currency rates.

At September 30, 2022, the Company had U.S. dollar denominated cash of approximately US\$3,413,092 (2021 – US\$1,313,626) and U.S. dollar denominated net assets of approximately US\$14,803,601 (2021 – US\$4,286,032). The remaining amounts were denominated in Canadian dollars. Gains and losses arising upon translation of these amounts into Canadian dollars for inclusion in the consolidated financial statements are recorded in other income and expenses as foreign exchange.

A 5% strengthening of the U.S. dollar versus the Canadian dollar, at September 30, 2022, would have increased the foreign exchange gain for the year by approximately \$740,180 (2021 – \$214,300) while a 5% weakening of the U.S. dollar would have had approximately the equal but opposite effect. This analysis assumes that all other variables remain constant.

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

Humble & Fume Inc.**Notes to the Interim Condensed Consolidated Financial Statements**

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

20. Financial instruments (continued)**b) Liquidity risk:**

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to ensure it has sufficient liquidity to meet its liabilities, mainly trade and other payables and borrowings, when due.

The Company manages liquidity risk through ongoing review of trade receivables balances, the following up of amounts past due, the management of its cash and its allocation between cash on hand and short-term investments. The Company settles its financial obligations out of cash and relies on collecting its trade receivables in a timely manner to fund operations.

The following are the contractual maturities of financial liabilities, including interest payments as at September 30, 2022.

	Carrying amount	Contractual cash flow	2023	2024	2025	2026	2027	Thereafter
Lease liability	\$3,282,408	\$5,125,528	\$ 758,435	\$807,326	\$816,819	\$834,460	\$854,636	\$1,053,852
Loan payable	\$1,881,841	2,400,000	200,000	2,200,000	—	—	—	—
Trade and other payable	6,647,647	6,647,647	6,647,647	—	—	—	—	—
Total	\$ 11,811,896	\$14,173,175	\$7,606,082	\$3,007,326	\$816,819	\$834,460	\$854,636	\$1,053,852

21. Non-controlling interest

The Company holds an 55% interest in HC Solutions Holdings Inc., HC Solutions of California LLC and Cabo Connection, and the remaining 45% represents the non-controlling interest.

The change in non-controlling interests is as follows:

	September 30, 2022	June 30, 2021
Balance, beginning of year	\$ 2,067,947	\$ —
Non-controlling interest contributions	7,866,000	2,568,176
Share of comprehensive loss for the year	(1,100,500)	(500,229)
Balance, end of year	\$ 8,833,447	\$ 2,067,947

22. Restructuring charge

Restructuring charge includes amounts relating to severance pay and warehouse closure costs.

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

Humble & Fume Inc.**Notes to the Interim Condensed Consolidated Financial Statements**

(unaudited) (in Canadian dollars)

For The Three Months Ended September 30, 2022 and 2021

23. Impairment of assets

In November 2021, a third-party contractual counterparty announced the closure of the facility in which Fume Labs performs the extraction of cannabis distillate, filling, packaging and sale of cannabis vaporizer cartridges. The Company depended on the third-party contractual counterparty in being able to conduct cannabis extraction and processing services under the third party's cannabis processing license and began legal action. Without access to a facility and a cannabis processing license, the assets held in Fume Labs are no longer in use and the recoverable amounts exceeds the related net book values. The Company has also provided for the accounts receivable from a third-party contractual counterparty. As a result, during the year ended June 30, 2022, the Company recognized the below impairment and allowances to the assets held in Fume Labs:

Computer hardware	\$ 4,380
Leasehold improvements	965,460
Furniture and equipment	758,895
Inventory	823,109
Prepaid expenses and deposits	61,477
Accounts receivable	566,380
Impairment of assets	\$ 3,179,701

24. Subsequent event

On October 11, 2022, the Company completed the acquisition of Barlow Printing, LLC, a licensed California cannabis distributor. The Company acquired all issued and outstanding securities of Barlow Printing, LLC for \$500,000 cash. The transaction is not expected to be treated as a business acquisition under IFRS 3, and expected to be accounted for as an asset acquisition.

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