



Humble & Fume Inc.

Consolidated Financial Statements
For the Nine and Three Months
Ended March 31, 2023

humble
+ fume

Humble & Fume Inc.
Interim Consolidated Condensed Financial
Statements

Nine months and Three months ended March 31, 2023

(Unaudited – Expressed in Canadian dollars)

Humble & Fume Inc.

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March 31, 2023 and 2022

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Humble & Fume Inc.

March 31, 2023 and 2022

NOTICE TO READER

These interim consolidated condensed financial statements of Humble and Fume Inc. (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 consolidated financial statements, notes to the interim consolidated condensed financial statements, or the related Management’s Discussion and Analysis.

Humble & Fume Inc.

Interim Consolidated Condensed Financial Statements

Consolidated Statements of Financial Position

(unaudited) (in thousands of Canadian dollars)

As at March 31, 2023 and June 30, 2022

		March 31 2023	June 30 2022
ASSETS	Note		(Audited)
Current assets			
Cash and cash equivalents		\$ 4,351	\$ 6,305
Accounts receivable	5	8,273	6,185
Prepaid expenses and deposits	6	4,602	3,784
Inventories	7	11,514	15,382
Promissory notes receivable	8	460	-
Taxes recoverable		-	291
		<u>29,200</u>	<u>31,947</u>
Non-current assets			
Due from related parties	15	332	328
Right-of-use assets	9	2,726	1,687
Property, plant and equipment	9	1,578	1,198
Intangible assets	10	1,625	1,296
		<u>6,261</u>	<u>4,509</u>
TOTAL ASSETS		<u>\$ 35,461</u>	<u>\$ 36,456</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 8,436	\$ 8,031
Lease liabilities	11	324	179
Loan payable	12	200	-
		<u>8,960</u>	<u>8,210</u>
Non-current liabilities			
Lease liabilities	11	2,800	1,745
Loan payable	12	1,821	-
		<u>4,621</u>	<u>1,745</u>
Total liabilities		<u>13,581</u>	<u>9,955</u>
Shareholders' equity			
Share capital	13	81,559	81,372
Contributed surplus	13	10,564	10,931
Warrants	13	1,706	1,650
Cumulative translation adjustment	13	466	(121)
Accumulated deficit	13	(81,384)	(69,399)
Total equity attributable to shareholders of the parent company		<u>12,911</u>	<u>24,433</u>
Non-controlling interest	13	8,969	2,068
Total Shareholders' equity		<u>21,880</u>	<u>26,501</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>\$ 35,461</u>	<u>\$ 36,456</u>

On behalf of the Board:

Director

Director

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

Humble & Fume Inc.

Interim Consolidated Condensed Financial Statements

Consolidated Statements of Loss and Comprehensive Loss

(unaudited) (in thousands of Canadian dollars, except per share amounts)

For The Three and Nine Months Ended March 31, 2023 and 2022

		Three months ended March 31		Nine months ended March 31	
		2023	2022	2023	2022
Revenues	<i>Note</i>				
Sale of products revenue		\$ 15,761	\$ 15,773	\$ 52,593	\$ 49,352
Service revenue		242	338	1,419	1,664
Total revenue		16,003	16,111	54,012	51,016
Cost of sale of products		13,266	12,834	45,723	41,129
Gross Margin		2,737	3,277	8,289	9,887
Operating expenses					
General and administration		2,198	1,409	6,585	4,297
Sales and marketing		347	337	1,755	1,013
Salaries and wages		3,678	2,629	12,139	9,248
Operations and customer support		797	186	2,891	681
Depreciation and amortization	9	218	164	681	683
Share based payments	13	(665)	382	(157)	1,270
Restructuring charge	22	132	225	698	946
		6,705	5,332	24,592	18,138
(Loss) Income from operations		(3,968)	(2,055)	(16,303)	(8,251)
Other (income) expenses					
Finance expense (income)		181	52	480	184
Other (income) expenses		7	5	(64)	116
Foreign exchange (gain) loss		21	428	(1,362)	(146)
Total other (income) expense		209	485	(946)	154
Loss before tax		(4,177)	(2,540)	(15,357)	(8,405)
Income tax expense (recovery)		-	5	307	(40)
Net loss for the period		(4,177)	(2,545)	(15,664)	(8,365)
Net loss for the period attributable to:					
Shareholders		\$ (2,872)	\$ (2,545)	\$ (11,985)	\$ (8,365)
Non-controlling interest		(1,305)	-	(3,679)	-
		\$ (4,177)	\$ (2,545)	\$ (15,664)	\$ (8,365)
Loss per share - basic and diluted		\$ (0.02)	\$ (0.02)	\$ (0.10)	\$ (0.07)
Weighted average number of common shares		124,168,060	123,824,628	124,164,234	114,398,248
Net loss for the period		\$ (4,177)	\$ (2,545)	\$ (15,664)	\$ (8,365)
Other comprehensive income					
Unrealized foreign currency translation gains (losses)		341	173	587	5
Total comprehensive loss for the period		\$ (3,836)	\$ (2,372)	\$ (15,077)	\$ (8,360)
Total comprehensive loss for the period attributable to:					
Shareholders		\$ (2,531)	\$ (2,372)	\$ (11,398)	\$ (8,360)
Non-controlling interest		(1,305)	-	(3,679)	-
		\$ (3,836)	\$ (2,372)	\$ (15,077)	\$ (8,360)

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

Humble & Fume Inc.

Interim Consolidated Condensed Financial Statements

Consolidated Statements of Changes in Equity

(unaudited) (in thousands of Canadian dollars)

For The Nine Months Ended March 31, 2023 and 2022

	Number of shares	Share capital	Warrants	Contributed surplus	Cumulative translation adjustment	Accumulated deficit	Non- controlling interest	Total
Balance at June 30, 2021	103,937,304	\$ 71,245	\$ 1,649	\$ 9,967	\$ 256	\$ (53,809)	\$ -	\$ 29,308
Exercise of stock options	202,500	136	-	(77)	-	-	-	59
Share-based payments	-	-	-	1,270	-	-	-	1,270
Shares issued on private placement	19,267,169	9,655	-	-	-	-	-	9,655
Shares issued on vesting of RSUs	439,825	336	-	(514)	-	-	-	(178)
Shares returned to treasury and cancelled	(117,370)	(105)	-	66	-	-	-	(39)
Transactions with owners	19,792,124	10,022	-	745	-	-	-	10,767
Net loss for the period	-	-	-	-	-	(8,365)	-	(8,365)
Other comprehensive income	-	-	-	-	5	-	-	5
Total comprehensive loss for the period	-	-	-	-	5	(8,365)	-	(8,360)
Balance at March 31, 2022	123,729,428	\$ 81,267	\$ 1,649	\$ 10,712	\$ 261	\$ (62,174)	\$ -	\$ 31,715

	Number of shares	Share capital	Warrants	Contributed surplus	Cumulative translation adjustment	Accumulated deficit	Non- controlling interest	Total
Balance at June 30, 2022	123,939,882	\$ 81,372	\$ 1,650	\$ 10,931	\$ (121)	\$ (69,399)	\$ 2,068	\$ 26,501
Share-based payments	-	-	-	(157)	-	-	-	(157)
Shares issued on vesting of RSUs	228,178	187	-	(210)	-	-	-	(23)
Warrants issued on loan payable	-	-	56	-	-	-	-	56
Non-controlling interest	-	-	-	-	-	-	10,580	10,580
Transactions with owners	228,178	187	56	(367)	-	-	10,580	10,456
Net loss for the period	-	-	-	-	-	(11,985)	(3,679)	(15,664)
Other comprehensive income	-	-	-	-	587	-	-	587
Total comprehensive loss for the period	-	-	-	-	587	(11,985)	(3,679)	(15,077)
Balance at March 31, 2023	124,168,060	\$ 81,559	\$ 1,706	\$ 10,564	\$ 466	\$ (81,384)	\$ 8,969	\$ 21,880

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

Humble & Fume Inc.

Interim Consolidated Condensed Financial Statements

Consolidated Statements of Cash Flows

(unaudited) (in thousands of Canadian dollars)

For The Nine Months Ended March 31, 2023 and 2022

		2023	2022
Operating activities	<i>Note</i>		
Net loss for the period		\$ (15,664)	\$ (8,365)
Adjustment to reconcile net loss to net cash flows from operating activities			
Depreciation and amortization	9	696	683
Credit loss	5	4	(31)
Provision (reversal of provision) for obsolete inventory	7	(318)	(322)
Interest and accretion not paid in cash		489	188
Share based compensation	13	(157)	1,270
Loss on disposal of right-of-use assets and lease liabilities		-	107
Change in items of non-cash working capital	18	1,973	207
Net cash used in operating activities		<u>(12,997)</u>	<u>(6,263)</u>
Investing activities			
Additions to property, plant and equipment	9	(630)	(616)
Additions to intangible asset		(264)	-
Loan receivable advance		(460)	-
Advances to related parties	15	(4)	6
Net cash used in investing activities		<u>(1,358)</u>	<u>(610)</u>
Financing activities			
Proceeds from exercise of stock options		-	58
Issuance of common shares, net of share issue costs		-	9,477
Shares issued on vesting RSUs, net of issue costs		(23)	-
Purchases of common shares returned to treasury and cancelled		-	(39)
Loan payable advance - net of transaction costs		1,912	-
Proceeds from non-controlling interest		10,580	-
Lease payments		(509)	(776)
Net cash flows from financing activities		<u>11,960</u>	<u>8,720</u>
Net change in cash and cash equivalents		<u>(2,395)</u>	<u>1,847</u>
Exchange differences		441	2
Cash and cash equivalents, beginning of period		6,305	9,655
Cash and cash equivalents, end of period		<u>\$ 4,351</u>	<u>\$ 11,504</u>

During the period ended March 31, 2023, the Company made interest payments of \$100 (March 31, 2022- \$nil) and income taxes of \$nil (March 31, 2022- \$nil).

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

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

(unaudited) (in thousands of Canadian dollars)

For The Three and Nine Months Ended March 31, 2023 and 2022

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 registered office is located at 77 King Street West, Suite 700, Toronto, M5K 1G8. The Company's U.S. head office is located at 301 Vista Ridge Dr Building 1 Ste 350, Kyle, TX 78640.

The Company trades on the Canadian Stock Exchange under the symbol “HMBL”.

These interim consolidated condensed financial statements have been approved for issue by the Board of Directors of the Company on May 11, 2023.

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

Humble & Fume Inc.

Notes to the Interim Consolidated Condensed Financial Statements

(unaudited) (in thousands of Canadian dollars)

For The Three and Nine Months Ended March 31, 2023 and 2022

2. Basis of presentation

2.1 Statement of compliance

The Interim Consolidated Condensed Financial Statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". They do not include all of the information required in annual financial statements in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2022. The Interim Financial Statements have been prepared in accordance with the accounting policies adopted in the Company's audited consolidated financial statements for the year ended June 30, 2022.

2.2 Basis of measurement

These Interim Consolidated Condensed 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

Humble & Fume Inc. is the ultimate parent company. The Interim Consolidated Condensed Financial Statements for the nine months ended March 31, 2023, and 2022 include the accounts of the Company and its subsidiaries, 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 consolidated statements of loss and comprehensive loss, statements of financial position and changes in shareholders' equity.

The Company's subsidiaries that are included in these interim consolidated financial statements are as follows:

Subsidiaries	Jurisdiction	March 31 2023	June 30 2022	March 31 2022
B.O.B. Headquarters Inc. ("BOB HQ")	Manitoba	100%	100%	100%
Fume Labs Inc. ("Fume Labs")	Ontario	100%	100%	100%
PWF Holdco Inc. ("PWF")	Delaware	100%	100%	100%
Humble Cannabis Solutions Inc.	Ontario	100%	100%	100%
Windship Trading, LLC ("Windship")	Texas	100%	100%	100%
HC Solutions Holdings Inc.	Delaware	50%	80%	N/A
HC Solutions of California LLC	Delaware	50%	80%	N/A
Cabo Connection	California	50%	80%	N/A

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

Humble & Fume Inc.

Notes to the Interim Consolidated Condensed Financial Statements

(unaudited) (in thousands of Canadian dollars)

For The Three and Nine Months Ended March 31, 2023 and 2022

2. Basis of presentation (continued)

The Interim Consolidated Condensed Financial Statements are presented in Canadian Dollars, which is the functional currency of the Company, BOB HQ, Humble Cannabis Solutions Inc. and Fume Labs Inc. The US Dollar is the functional currency of PWF, Windship, HC Solutions Holdings Inc., HC Solution of California LLC and Cabo Connection.

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 Consolidated Condensed 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 estimates, judgments and measurement uncertainty

The preparation of these Interim Consolidated Condensed Financial Statements requires management to make judgments and estimates and form assumptions that affect the carrying amounts of assets and liabilities as at the reporting date 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 Interim Consolidated Condensed 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 for annual periods beginning on or after January 1, 2023, and reporting periods beginning on or after January 1, 2024, with early adoption permitted. The amendments are to be applied retrospectively. The Company did not adopt these amendments prior to the effective date.

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

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

(unaudited) (in thousands of Canadian dollars)

For The Three and Nine Months Ended March 31, 2023 and 2022

5. Accounts receivable

	March 31, 2023	June 30, 2022
Accounts receivable	\$ 8,973	\$ 6,881
Expected credit loss	(700)	(696)
	\$ 8,273	\$ 6,185

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

6. Prepaid expenses and deposits

	March 31, 2023	June 30, 2022
Deposits on inventory	\$ 2,291	\$ 2,567
Other prepaid expenses	2,311	1,217
	\$ 4,602	\$ 3,784

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 of prepaid expenses and deposits held by Fume Labs. See Note 23.

7. Inventories

	March 31, 2023	June 30, 2022
Finished goods and components	\$ 12,164	\$ 16,350
Inventory provision	(650)	(968)
	\$ 11,514	\$ 15,382

During the nine months ended March 31, 2023, the Company recognized \$44,329 (2022 – \$37,858) of inventories as an expense and recorded a net (pick up) write down of inventory of \$31 (2022 – (\$322)) to net realizable value. These expenses are included in the cost of sale of product revenue on the Consolidated Statements of Loss and Comprehensive Loss. During the year ended June 30, 2022, the Company wrote-off \$823 of inventory held by Fume Labs. See Note 23.

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

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

(unaudited) (in thousands of Canadian dollars)

For The Three and Nine Months Ended March 31, 2023 and 2022

8. Promissory notes receivable

Promissory notes receivable are unsecured, bear interest at rates of between 2.5% and 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	\$ 1,570	\$ 60	\$ 8	\$ 1,608	\$ 3,220	\$ 6,638
Additions	98	450	412	35	78	871	1,945
Disposals	-	-	(29)	-	-	(1,286)	(1,315)
Impairment	(13)	(1,395)	-	-	(1,182)	-	(2,590)
Currency translation	-	-	-	-	2	11	13
As at June 30, 2022	258	624	444	43	506	2,816	4,691
Additions	41	294	188	7	117	1,311	1,957
Disposals	-	-	-	-	-	(736)	(736)
Impairment	-	-	-	-	-	-	-
Currency translation	5	23	21	-	23	94	166
As at March 31, 2023	304	940	654	50	645	3,485	6,078
Accumulated Depreciation	Computer Hardware	Leasehold Improvements	Automobiles and Trailer	Computer Software	Furniture & Equipment	Right of use Asset	Total
As at June 30, 2021	\$ 120	\$ 430	\$ 51	\$ 3	\$ 592	\$ 1,461	\$ 2,656
Disposals	-	-	(28)	-	-	(806)	(834)
Impairment	(8)	(430)	-	-	(423)	-	(861)
Depreciation	37	143	28	4	159	473	845
As at June 30, 2022	148	142	51	7	328	1,129	1,806
Disposals	-	-	-	-	-	(736)	(736)
Impairment	-	-	-	-	-	-	-
Depreciation	48	90	132	10	40	360	681
Currency translation	2	2	3	-	11	5	23
As at March 31, 2023	\$ 198	\$ 235	\$ 186	\$ 18	\$ 379	\$ 758	\$ 1,774
Net Carrying Amount							
As at June 30, 2022	\$ 110	\$ 481	\$ 393	\$ 35	\$ 178	\$ 1,687	\$ 2,885
As at March 31, 2023	\$ 106	\$ 706	\$ 467	\$ 32	\$ 267	\$ 2,726	\$ 4,304

The right-of-use assets relate 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 \$1,729. See Note 23.

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

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

(unaudited) (in thousands of Canadian dollars)

For The Three and Nine Months Ended March 31, 2023 and 2022

10. Intangible assets

	Licences		Total
Cost			
As at June 30, 2021	-	\$	-
Additions	1,296		1,296
Disposals	-		-
Effects of foreign exchange	-		-
As at June 30, 2022	1,296		1,296
Additions	264		264
Disposals	-		-
Effects of foreign exchange	65		65
As at March 31, 2023	1,625	\$	1,625
Accumulated Depreciation			
As at June 30, 2021	-		-
Disposals	-		-
Depreciation	-		-
As at June 30, 2022	-		-
Disposals	-		-
Depreciation	-		-
As at March 31, 2023	-		-
Net Carrying Amount			
As at June 30, 2022	1,296	\$	1,296
As at March 31, 2023	1,625	\$	1,625

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

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

(unaudited) (in thousands of Canadian dollars)

For The Three and Nine Months Ended March 31, 2023 and 2022

11. Lease liabilities

The Company leases assets, including office buildings and equipment. Lease liabilities relating to those assets are as follows:

Balance, June 30, 2021	\$	2,096
Additions		871
Disposals		(375)
Interest expense		240
Lease payments		(924)
Effects of foreign exchange		16
Balance, June 30, 2022		1,924
Additions		1,310
Disposals (net)		(19)
Interest expense		326
Lease payments		(510)
Effects of foreign exchange		93
Balance, March 31, 2023	\$	3,124
Current		324
Non-current		2,800
Balance, March 31, 2023	\$	3,124

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 \$107 was recognized in restructuring charge on the 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.

Maturity analysis of lease instalments payable

Less than one year	\$	780
One to two years		798
Two to three years		817
Three to four years		837
Four to five years		671
Thereafter		971
Total undiscounted lease instalments payable		4,874
Less: impact of present value		(1,750)
Balance, March 31, 2023	\$	3,124

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

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

(unaudited) (in thousands of Canadian dollars)

For The Three and Nine Months Ended March 31, 2023 and 2022

12. Loan payable

On September 1, 2022, the Company entered into a loan agreement up to a maximum principal amount of \$2,000. 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. The loan matures on September 2, 2024. Interest expense on the loan is calculated at an effective interest rate of 10.24% per annum. As at March 31, 2022, the Company has been in compliance with all terms and covenants set forth in the loan agreement.

The carrying amount of loan payable is as follows:

Loan balance

Balance, June 30, 2022	\$	-
Advances		2,000
Interest payments		
Interest expense accrual		126
Balance, March 31, 2023		2,126

Deferred financing costs

Balance, June 30, 2022	-
Additions	(144)
Amortization of deferred financing costs	39
Balance, March 31, 2023	(105)

Carrying amount at March 31, 2023	\$	2,021
Current		200
Non-current		1,821
Carrying amount at March 31, 2023	\$	2,021

13. Share capital

Authorized – Unlimited number of common shares.

Issued and outstanding – common shares

The share activity for the nine months ended March 31, 2023 and year ended June 30, 2022 is as follows:

	Number of shares	Share capital
Outstanding at June 30, 2021	103,937,304	\$ 71,245
Exercise of stock options	202,500	136
Shares issued on private placement	19,267,169	9,655
Shares issued on vesting of RSUs	650,279	441
Shares returned to treasury and cancelled	(117,370)	(105)
Outstanding at June 30, 2022	123,939,882	81,372
Shares issued on vesting of RSUs	228,178	187
Outstanding at March 31, 2023	124,168,060	\$ 81,559

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

Humble & Fume Inc.

Notes to the Interim Consolidated Condensed Financial Statements

(unaudited) (in thousands of Canadian dollars)

For The Three and Nine Months Ended March 31, 2023 and 2022

13. Share capital (continued)

- 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 total gross proceeds of \$9,962. The agreement's issuance cost consisted of a cash issuance cost of \$307 and a non-cash issuance cost of \$292 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 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 \$598. Previously recognized share-based payments of \$77 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 \$398. These shares had an original share cost of \$105. The difference of \$66 was recorded in contributed surplus.

Warrants

The changes in the number of warrants outstanding during the nine-month period ended March 31, 2023 and year ended June 30, 2022 were as follows:

	Number of warrants	Weighted average exercise price
Outstanding at June 30, 2021	5,194,500	\$ 1.40
Outstanding at June 30, 2022	5,194,500	1.40
Issued	750,000	0.25
Outstanding at March 31, 2023	5,944,500	\$ 1.25

- 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.

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

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

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13. Share capital (continued)**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	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	0.57	8.59
Granted	765,000	0.12	9.53
Expired	(3,496,700)	0.57	-
Balance at March 31, 2023	4,422,300	0.54	8.21

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:

	March 31, 2023	June 30, 2022
Risk-free interest rate	1.44% - 3.19%	1.44% - 3.19%
Expected dividend yield	0%	0%
Expected volatility	96.26 - 111.06%	96.26 - 102.53%
Expected option life	10 years	10 years
Share price	\$0.10- \$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 \$0.12.

The stock-based compensation expense of options was (\$164) (2022 – \$1,060) for the nine months ended March 31, 2023. The number of options exercisable at that date was 2,165,620 (June 30, 2022 – 2,781,653).

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

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

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13. Share capital (continued)

The following schedule summarizes options outstanding as at March 31, 2023:

Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Exercise Price	Number Exercisable
\$0.29	405,000	5.01	\$0.29	405,000
\$1.00	265,000	5.85	\$1.00	265,000
\$0.84	45,000	7.47	\$0.84	29,700
\$1.00	742,300	8.22	\$1.00	649,170
\$0.39	45,000	8.44	\$0.39	14,850
\$0.50	2,000,000	8.67	\$0.50	660,000
\$0.40	340,000	8.94	\$0.40	112,200
\$0.36	45,000	8.96	\$0.36	14,850
\$0.34	45,000	9.00	\$0.34	14,850
\$0.14	200,000	9.52	-	-
\$0.10	200,000	9.68	-	-
\$0.10	45,000	9.81	-	-
\$0.10	45,000	9.92	-	-
\$0.54	4,422,300	8.21	\$0.67	2,165,620

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	-	-
\$0.39	120,000	9.19	\$0.39	75,000
\$0.43	20,000	9.17	-	-
\$0.60	10,000	9.39	-	-
\$0.50	2,000,000	9.42	-	-
\$0.40	430,000	9.69	-	-
\$0.36	90,000	9.71	-	-
\$0.36	45,000	9.69	-	-
\$0.62	7,154,000	8.59	\$0.67	2,781,653

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

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

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13. Share capital (continued)

On July 1, 2020, the Company issued 1,552,756 Restricted Share Units (RSU), where one-third vested at completion of the reverse takeover, 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 nine months ended March 31, 2023, the share-based payments expense was \$6 (March 31, 2022 – \$209) for the RSUs.

The RSU activity during the nine-month period ended March 31, 2023, and year ended June 30, 2022 is as follows:

	Number of RSUs
June 30, 2021	1,055,128
Granted	479,082
Vested	(980,027)
Forfeited	(10,175)
June 30, 2022	544,008
Vested	(291,417)
Forfeited	(227,503)
March 31, 2022	25,088

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	291,417	(291,417)	-
Forfeited	-	(227,503)	(227,503)
March 31, 2022	1,803,764	25,088	1,828,852

Of the total 291,417 shares vested, all units were settled in shares with a total of 63,239 units withheld in lieu of tax withholdings resulting in a net share release of 228,178.

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

Humble & Fume Inc.

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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 nine months ended March 31, 2023 and 2022 was approximately \$436 and \$41 respectively.

Legal matters

From time to time, the Company is named as a party to claims or is 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 differ from these estimates, the difference will be accounted for as a charge to profit or loss in that period.

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 48 North Cannabis Corp ("48North"), which 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. Hexo has commenced a countersuit against the Company therefore there is exposure to a potential loss. The outcome of this legal action is uncertain; therefore, no liability has been recognized.

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 (2022- \$325) 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% per annum.

	March 31, 2023		June 30, 2022	
Due from Shareholders	\$	332	\$	328
Due from related parties	\$	332	\$	328

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

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

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15. Due to related parties and related party transactions (continued)**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 \$805 for the nine months ended March 31, 2023 (2022 – \$1,662), which included \$636 of salaries (2022 – \$956) and \$293 (2022 – \$706) 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 nine months ended March 31, 2023, the Company paid \$nil in rent and common area charges (2022 – \$215). As of February 2022, the premises were no longer owned by a related party.

During the nine months ended March 31, 2023, the Company purchased \$nil (2022 – \$380) 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 nine months ended March 31, 2023, the Company purchased \$nil (2022 – \$366) of these services, of which \$nil (2022 – \$29) are purchased from the entity in which the related party has a minor stake.

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 and assets by location:

	March 31, 2023		March 31, 2022	
Revenues				
Canada	\$	16,755	\$	23,333
USA		37,257		27,683
	\$	54,012	\$	51,016
	March 31, 2023		March 31, 2022	
Non-Current Assets				
Canada	\$	862	\$	2,712
USA		5,067		737
	\$	5,929	\$	3,449

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

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17. Finance (income) expense

	March 31, 2023	March 31, 2022
Interest income	\$ (21)	\$ (14)
Interest expense	502	198
Net finance expense	\$ 480	\$ 184

Interest income includes interest on interest bearing bank account of \$17 (2022 – \$9), service charge income on delinquent customer accounts of \$nil (2022 – \$nil) and interest income on promissory note to related party of \$4 (2022 – \$4).

The interest expense includes interest on lease liability of \$324 (2022 – \$189) and accrued interest expense on loan payable of \$178 (2022 – \$nil).

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

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

	March 31, 2023	March 31, 2022
Accounts receivable	\$ (2,091)	\$ (1,768)
Prepaid expenses and deposits	(818)	(300)
Inventories	4,186	2,136
Accounts payable and accrued liabilities	405	(468)
Taxes recoverable	291	607
	\$ 1,973	\$ 207

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 and debt.

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 or raise additional debt.

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

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

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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 at March 31, 2023				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	4,351	-	-	4,351

As at June 30, 2022				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	6,305	-	-	6,305

At March 31, 2023 and 2022, 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, accounts payable and accrued liabilities approximate their carrying values due to the relatively short-term to maturity. The fair value of the loan payable was \$2,090 as compared to its carrying amount of \$2,021. 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.

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.

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(unaudited) (in thousands of Canadian dollars)

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20. Financial instruments (continued)

The Company's cash subjects the Company to credit risk. At March 31, 2023, the Company had cash of approximately \$4.3 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 had no customers comprising more than 10% of trade receivables at March 31, 2023 and one customer comprising 12% of trade receivables at March 31, 2022.

At March 31, 2023 and 2022 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 March 31, 2023, \$6,183 (June 30, 2022 – \$3,088) 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:

ii. Credit risk: (continued)

	March 31, 2023	June 30, 2022
	Gross	Gross
Not past due	\$ 2,789	\$ 3,793
Past due 1-30 days	1,971	825
Past due 31-90 days	1,601	771
Past due 90+ days	2,611	1,492
	<u>\$ 8,972</u>	<u>\$ 6,881</u>

Past due	0 days	1-30 days	31-90 days	90+ days	Total
ECL rate	0.27%	0.32%	5.74%	22.76%	
ECL Allowance	\$ 8	\$ 6	\$ 92	\$ 594	\$ 700

Past due	6,183
ECL Allowance	<u>\$ (700)</u>
Past due, not impaired	<u>\$ 5,483</u>

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.

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

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20. Financial instruments (continued)

iii. Interest rate risk:

The Company's borrowings, including loan payable, are 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 denominated in U.S. dollars that expose the Company to foreign exchange risks. The Company has a self-sustaining operation in the U.S. with 68% (2022 – 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 March 31, 2023, the Company had U.S. dollar denominated cash of approximately US\$2,496 (2022 – US\$ 7,965) and U.S. dollar denominated net assets of approximately US\$10,869 (2022 – US\$ 10,250). The remaining amounts were denominated in Canadian dollars. Gains and losses arising upon translation of these amounts into Canadian dollars for inclusion in the interim 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 March 31, 2023, would have increased the foreign exchange gain for the period by approximately \$543 (2022 – \$512) 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.

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 March 31, 2023.

	Carrying amount	Contractual cash flow	2023	2024	2025	2026	2027	Thereafter
Lease liability	\$ 3,124	\$ 4,874	\$ 780	\$ 798	\$ 817	\$ 837	\$ 671	\$ 971
Loan payable	2,021	2,400	200	2,200	-	-	-	-
Trade and other payable	8,436	8,436	8,436	-	-	-	-	-
Total	\$ 13,581	\$ 15,710	\$ 9,416	\$ 2,998	\$ 817	\$ 837	\$ 671	\$ 971

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

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21. Non-controlling interest

The Company holds a 50% interest in HC Solutions Holdings Inc., HC Solutions of California LLC and Cabo Connection. The remaining 50% represents the non-controlling interest ("NCI").

The change in NCI is as follows:

Balance, July 1, 2021	\$	-
Contributions		2,568
Share of net loss for the year		(500)
Balance, June 30, 2022	\$	2,068
Contributions		10,580
Share of net loss for the period		(3,679)
Balance, March 31, 2023	\$	8,969

22. Restructuring charge

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

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 impairment and allowances to the assets held in Fume Labs as follows:

	March 31, 2023	June 30, 2022
Computer hardware	\$ -	\$ 4
Leasehold improvements	-	966
Furniture and equipment	-	759
Inventory	-	823
Prepaid expenses and deposits	-	62
Accounts payable	-	566
	\$ -	\$ 3,180

24. Comparative amounts

Certain prior period amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

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