October 26, 2023

Humble & Fume Inc.

Consolidated Financial Statements
Years Ended June 30, 2023 and 2022

Humble & Fume Inc.

Consolidated Financial Statements

Years Ended June 30, 2023 and 2022

(Expressed in Canadian dollars)

Humble & Fume Inc.

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June 30, 2023 and 2022

Independent Auditor's Report

To the Shareholders of Humble & Fume Inc.:

Opinion

We have audited the consolidated financial statements of Humble & Fume Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2023, and June 30, 2022, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2023 and June 30, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2.2 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended June 30, 2023 and, as of that date, the Company had an accumulated deficit. As stated in Note 2.2, these events or conditions, along with other matters as set forth in Note 2.2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matters to be communicated in our report.

MNP LLP
1 Adelaide Street East, Suite 1900, Toronto ON, M5C 2V9 1.877.251.2922 T: 416.596.1711 F: 416.596.7894

Assessment of control of subsidiary

Key Audit Matter Description

As described in Note 25, in June 2023, the Company's holdings in HC Solutions Holdings Inc. ("HC Solutions") were diluted to 49.8% after HC Solutions issued shares from treasury to another party. This event did not result in a loss of control and the Company continued consolidating HC Solutions operations into its consolidated financial statements.

We determined this to be a key audit matter due to the judgement required to assess whether the Company continued to exert control HC Solutions following the transaction. This resulted in significant audit effort in performing procedures and evaluating the audit evidence related to management's assessment.

Audit Response

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

Obtained management's assessment of control and evaluated the accounting treatment in accordance with IFRS including :

Assessing whether the Company has power over HC Solutions that gives the Company the current ability to direct the activities of HC Solutions.

Assessing whether the Company is exposed or has rights to variable returns from its involvement with HC Solutions.

Assessing whether the company has the ability to use its power over HC Solutions to affect the amount of the Company's return, and

Evaluated the appropriateness of disclosures of the above transaction in the notes to the consolidated financial statements.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MNP LLP

Toronto, Ontario	Chartered Professional Accountants
October 26, 2023	Licensed Public Accountants

Humble & Fume Inc.
Consolidated Financial Statements

Consolidated Statements of Financial Position
(in thousands of Canadian dollars)
As at June 30, 2023 and June 30, 2022

	Note	June 30 2023	June 30 2022
ASSETS			
Current assets			
Cash and cash equivalents		**$ 2,837**	$ 6,305
Accounts receivable	7	**4,672**	6,185
Prepaid expenses and deposits	8	**4,842**	3,784
Inventories	9	**9,802**	15,382
Due from related parties	18	**333**	-
Taxes recoverable		**-**	291
		22,486	31,947
Non-current assets			
Due from related parties	18	**-**	328
Long term Deposit		**258**	-
Right-of-use assets	11	**2,565**	1,687
Property, plant and equipment	11	**1,438**	1,198
Intangible assets	12	**1,405**	1,296
		5,666	4,509
TOTAL ASSETS		**$ 28,152**	$ 36,456
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**$ 7,061**	$ 8,031
Lease liabilities	13	**345**	179
Convertible debenture - debt	15	**698**	-
Loan payable	14	**200**	-
		8,304	8,210
Non-current liabilities			
Lease liabilities	13	**2,655**	1,745
Loan payable	14	**1,891**	-
		4,546	1,745
Total liabilities		**12,850**	9,955
Shareholders' equity			
Share capital	16	**81,430**	81,372
Contributed surplus	16	**11,269**	10,931
Warrants	16	**1,912**	1,650
Cumulative translation adjustment	16	**(11)**	(121)
Accumulated deficit	16	**(82,956)**	(69,399)
Total equity attributable to shareholders of the parent company		**11,644**	24,433
Non-controlling interest	25	**3,658**	2,068
Total Shareholders' equity		**15,302**	26,501
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 28,152**	$ 36,456

Going Concern (Note 2.2)

On behalf of the Board:

/s/ Shawn Dym
Director

/s/ Mark Hubler
Director

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

Humble & Fume Inc.
Consolidated Financial Statements

Consolidated Statements of Loss and Comprehensive Loss

(in thousands of Canadian dollars, except per share amounts)
Years Ended June 30, 2023 and 2022

	Note	2023	2022
Revenues			
Sale of products revenue	19	$ 67,026	$ 64,287
Service revenue	19	1,487	1,863
Total revenue		68,513	66,150
Cost of sale of products		58,339	53,484
Gross Margin		10,174	12,666
Operating expenses			
General and administration		10,961	6,250
Sales and marketing		2,683	1,882
Salaries and wages		15,621	13,233
Operations and customer support		3,529	1,214
Depreciation and amortization	11	897	850
Share based payments	16	(187)	1,595
Restructuring charge	26	715	1,336
Impairment of assets	27	552	3,180
		34,771	29,540
(Loss) Income from operations		(24,597)	(16,875)
Other (income) expenses			
Finance expense (income)		675	236
Other (income) expenses		(15)	46
Foreign exchange (gain) loss		(586)	(1,015)
Total other (income) expense		74	(733)
Loss before tax		(24,671)	(16,142)
Income tax expense (recovery)	24	314	(52)
Net loss for the period		(24,985)	(16,090)
Net loss for the period attributable to:			
Shareholders		$ (18,534)	$ (15,590)
Non-controlling interest	25	(6,451)	(500)
		$ (24,985)	$ (16,090)
Loss per share - basic and diluted		$ (0.15)	$ (0.13)
Weighted average number of common shares		124,188,060	116,722,797
Net loss for the period		$ (24,985)	$ (16,090)
Other comprehensive income			
Unrealized foreign currency translation gains (losses)		110	(377)
Total comprehensive loss for the period		$ (24,875)	$ (16,467)
Total comprehensive loss for the period attributable to:			
Shareholders		$ (18,424)	$ (15,967)
Non-controlling interest		(6,451)	(500)
		$ (24,875)	$ (16,467)

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

Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)
Years Ended June 30, 2023 and 2022

	Note	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	$ (53,810)	$ -	$ 29,308
Exercise of stock options	*16*	202,500	136	-	(77)	-	-	-	59
Share-based payments	*16*	-	-	-	1,595	-	-	-	1,595
Non-controlling interest	*25*	-	-	-	-	-	-	2,568	2,568
Shares issued on private placement	*16*	19,267,169	9,655	-	-	-	-	-	9,655
Shares issued on vesting of RSUs	*16*	650,279	441	-	(620)	-	-	-	(179)
Shares returned to treasury and cancelled	*16*	(117,370)	(105)		66				(39)
Net loss for the period		-	-	-	-	-	(15,589)	(500)	(16,089)
Other comprehensive income		-	-	-	-	(377)	-	-	(377)
Total comprehensive loss for the year		-	-	-	-	(377)	(15,589)	(500)	(16,466)
Balance at June 30, 2022		**123,939,882**	**$ 81,372**	**$ 1,650**	**$ 10,931**	**$ (121)**	**$ (69,399)**	**$ 2,068**	**$ 26,501**
Share-based payments	*16*	-	-	-	(187)	-	-	-	(187)
Shares issued on vesting of RSUs	*16*	248,178	58	-	(78)	-	-	-	(20)
Warrants issued on loan payable	*16*	-	-	56	-	-	-	-	56
Warrants issued on private placement	*16*	-	-	206	-	-	-	-	206
Equity component of convertible debentures	*16*	-	-	-	603	-	-	-	603
Change in Non-controlling interest	*25*	-	-	-	-	-	4,977	8,041	13,018
Net loss for the period		-	-	-	-	-	(18,534)	(6,451)	(24,985)
Other comprehensive income		-	-	-	-	110	-	-	110
Total comprehensive loss for the year		-	-	-	-	110	(18,534)	(6,451)	(24,875)
Balance at June 30, 2023		**124,188,060**	**81,430**	**1,912**	**11,269**	**(11)**	**(82,956)**	**3,658**	**15,302**

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

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)
Years Ended June 30, 2023 and 2022

	Note	2023	2022
Operating activities			
Net loss for the period		$ **(24,985)**	$ (16,090)
Adjustment to reconcile net loss to net cash flows from operating activities			
Depreciation and amortization	11	**897**	850
Credit loss	7	**1,641**	538
Provision (reversal of provision) for obsolete inventory	9	**(29)**	(1,283)
Interest and accretion not paid in cash	20	**675**	240
Share based compensation	16	**(187)**	1,595
Loss on disposal of right-of-use assets and lease liabilities		**-**	106
Impairment of Assets	27	**552**	3,180
Change in items of non-cash working capital	21	**3,192**	(933)
Net cash used in operating activities		**(18,244)**	(11,797)
Investing activities			
Additions to property, plant and equipment	11	**(630)**	(1,078)
Additions to long term deposits		**(258)**	
Additions to intangible asset	12	**(73)**	(1,296)
Advances to related parties	18	**(5)**	54
Net cash used in investing activities		**(966)**	(2,320)
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		**(20)**	-
Purchases of common shares returned to treasury and cancelled		**-**	(39)
Loan payable advance - net of transaction costs		**1,913**	-
Proceeds from non-controlling interest	25	**13,018**	2,568
Convertible Debenture	23	**1,507**	-
Lease payments	13	**(701)**	(924)
Net cash flows from financing activities		**15,717**	11,140
Net change in cash and cash equivalents		**(3,493)**	(2,977)
Exchange differences		**25**	(373)
Cash and cash equivalents, beginning of period		**6,305**	9,655
Cash and cash equivalents, end of period		$ **2,837**	$ 6,305

During the period ended June 30, 2023, the Company made interest payments of $707 (June 30, 2022- $240) and income taxes of $nil (June 30, 2022- $nil).

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

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. The company also engaged in the sales and distribution of Cannabis to retail stores in the state of California. 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 consolidated financial statements have been approved for issue by the Board of Directors of the Company on October 26, 2023.

2. Basis of presentation and going concern assumption

2.1 Statement of compliance

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") as issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC").

2.2 Going Concern

The Consolidated Financial Statements have been prepared on a going concern basis which assumes that the Company will, in the foreseeable future realize on its assets and discharge its liabilities in the normal course of business as they come due. Accordingly, the Consolidated Financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in these Consolidated Financial statements. Such adjustments could be material. As at June 30, 2023, the Company had working capital of $15,627 compared to $23,727 at June 30, 2022. Net loss for the year ended June 30, 2023, was $23,045 (2022 – $16,090). The accumulated deficit as at June 30, 2023 was $81,881 (2022 – $69,399). These conditions indicate a material uncertainty that may cast significant doubt on the Company's ability to continue operating as a going concern for the foreseeable future. The Company anticipates it has sufficient cash on hand to service its liabilities and fund operating costs for the immediate future; however, there is uncertainty as to how long these funds will last. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and obtain necessary financing to do so. When the Company can attain profitability and positive cash flows from operations, is subject to material uncertainty. In August 2022, the HC Solutions issued shares from treasury raising $4,000.

2.3 Basis of measurement

These 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.

2.4 Basis of consolidation

Humble & Fume Inc. is the ultimate parent company. The Consolidated Financial Statements for the twelve months ended June 30, 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 consolidated statements of loss and comprehensive loss, statements of financial position and changes in shareholders' equity.

(in thousands of Canadian dollars)

2. Basis of presentation (continued)

2.4 Basis of consolidation

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

Subsidiaries	**Jurisdiction**	**June 30 2023**	**June 30 2022**
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	49.8%	80%
HC Solutions of California LLC	Delaware	49.8%	80%
Cabo Connection	California	49.8%	80%

See note 25 for further details regarding the ownership of HC Solutions Inc.

The Consolidated 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.

3. Business Acquisitions

Cabo Connection

On October 12, 2021, the Company entered into a stock purchase agreement to acquire 100% of all the issued and outstanding shares of Cabo Connection ("Cabo"), a California corporation. Cabo was acquired to obtain cannabis distribution licences in California. This acquisition is contingent on the approvals to transfer the cannabis licences from Cabo to the Company by the relevant government departments in California. The Company also entered into a management services agreement with Cabo, allowing the Company to manage and operate Cabo and its assets during the licence transfer approval process. On April 16, 2022, an executive of the Company was approved by the government departments as CEO, CFO and Secretary of Cabo, also considered as a statutory "owner". As of April 16, 2022, the acquisition date, the Company is considered to have completed all necessary aspects of the governmental approval process and is deemed to have obtained control of Cabo. On the acquisition date, Cabo's assets consisted primarily of the cannabis licences and the right of use asset relating to the lease and did not have any processes capable of generating outputs; therefore, Cabo did not meet the definition of a business. Accordingly, as Cabo did not qualify as a business in accordance to IFRS 3 Business Combinations, the acquisition did not constitute a business combination, therefore it has been accounted for as an asset acquisition. As part of consideration paid, the Company will issue shares valued at $129 upon the closing of the transaction. The number of shares will be calculated based on the 30-day volume weighted average price per share of the Company's common stock as of closing date. On May 22, 2023 the company agreed to an addendum to the purchase agreement where the previously mentioned shares were forgone in exchange for $73. See note 12.

(in thousands of Canadian dollars)

3. Business Acquisitions (continued)

Cabo Connection (continued)

Net assets of Cabo Connection acquired:	**April 16, 2022** **$**
Licence	902
Right of use asset	859
Total assets	1,761
Lease liability	859
Total net assets acquired	**902**

Consideration paid for Cabo Connection:	**$**
Cash	773
Common shares	129
Total Consideration Paid	**902**

4. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

4.1 Cash and cash equivalents

Cash consist of cash on hand and bank balances.

4.2 Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and any accumulated impairment losses. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statements of loss and comprehensive loss. Expenditure to replace a component of an item of property, plant or equipment that is accounted for separately is capitalized and the existing carrying amount of the component written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditures, including repair and maintenance, are recognized in profit or loss as incurred.

Depreciation is charged to the profit or loss based on the cost, less estimated residual value, of the asset using the declining balance or straight-line method over the estimated useful life. Depreciation commences when the assets are available for use. Leaseholds are depreciated on a straight-line basis over the life of the lease, not to exceed 5 years. The estimated useful lives in years are as follows:

Automobiles and trailer	30% Declining balance
Furniture & equipment	20% Declining balance
Computer hardware	55% Declining balance
Computer software	Straight-line over 3 years
Leasehold improvements	Lease term or 5 years.
Right of use asset	Lease term

Summary of significant accounting policies continued

4.3 Intangible assets

Separately acquired intangible assets are recorded at the purchase price plus any directly attributable cost of preparing the asset for its intended use. Intangible assets with indefinite useful live are deemed to have no foreseeable limit over which the asset is expected to generate net cash inflows. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. Intangible assets are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

4.4 Joint operations

The Company applies IFRS 11, Joint Arrangements. A joint arrangement is defined as one set of operations over which two or more parties have joint control. This exists when the decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have

rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. When a joint arrangement

undertakes its activities under joint operations, the party recognizes, in relation to its interest, in the joint operation; (i) its assets, including its share of any assets held jointly, (ii) its liabilities, including its share of any liabilities incurred jointly, (iii) its revenue from the sale of its share of the output arising from the joint operation, and (iv) its expense, including its share of any expenses incurred jointly.

The Company recognizes only its direct assets, liabilities and share of the results of operations of the joint operation. The assets, liabilities and results of joint operations are included within the respective line items of the consolidated statements of financial position and consolidated statements of loss and comprehensive loss. The Company accounts for the assets, liabilities, revenues and expenses relating to its interest in the joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

4.5 Accounts receivable and expected credit loss

Accounts receivables are recorded at the invoiced amount and do not bear interest. An expected credit loss model applies to the accounts receivables measured at amortized cost. The Company applies the simplified approach to impairment for accounts receivables by recognizing a loss allowance based on lifetime expected losses. Expected credit loss reflects the Company’s estimate of amounts in its existing accounts receivables that may not be collected due to customer claims or customer inability or unwillingness to pay. The expected credit loss is determined based on a combination of factors, including the Company’s risk assessment regarding the credit worthiness of its customers, historical collection experience and length of time the receivables are past due. Account balances are charged off against the allowance when the Company believes it is probable the receivable will not be recovered.

Summary of significant accounting policies continued

4.6 Inventories

Inventory is valued at the lower of cost and net realizable value. Cost comprises all costs of purchases and other costs incurred in bringing inventories to their present location and condition. The Company uses the weighted average method to track and cost inventory items. The inventory consists of cannabis products, vaporizers, vaporizer accessories and other accessories. The inventory consists solely of goods currently available for sale and does not include any unfinished goods or work-in-progress.

Inventory is written down to net realizable value by item when a decline in the price of items indicates that the cost is higher than the net realizable value. When events having caused a decline in the valuation of inventories no longer exist, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value.

4.7 Accounts payable and accrued liabilities

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

4.8 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating policy decisions.

Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

4.9 Revenue recognition

IFRS 15 applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps: i) identify the contract with a customer; ii) identify the performance obligations in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligations in the contract; and v) recognize revenue when (or as) the entity satisfies a performance obligation.

The Company derives its revenues from the sales of cannabis related products, vaporizers and accessories. Product sales are recognized when the Company has delivered the product to the customer, and control of the product has been transferred to the customer, per the agreed upon shipping terms.

Revenues from sales of cannabis related products, vaporizers and accessories are recognized at the amount of consideration to which the Company expects to be entitled. This amount includes deductions for rebates or allowances that are determined, in some cases, using assumptions based on estimates prepared using the Company’s past history and experience.

Summary of significant accounting policies continued

The Company recognizes revenue related to sales agency services rendered as set out in various Sales Representation agreements with its customers. As per the agreements the company receives a cost sharing fee directly related to its sales agents with a further performance-based bonus compensation recognized upon various milestones.

4.10 Lease arrangements

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of the costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use assets are depreciated to the earlier of the end of useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of the consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset can be periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Company's incremental borrowing rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from the change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if

the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, unless it has been reduced to zero.

4.11 Share-based payments

The Company operates equity settled share-based remuneration plans for its eligible directors, officers, employees and consultants. All goods and services received in exchange for the grant of any share-based payments are measured at their fair value unless the fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods and services received, the Company shall measure their value indirectly by reference to the fair value of the equity instruments granted. For transactions with employees and others providing similar services, the Company measures the fair value of the services by reference to the fair value of the equity instruments granted.

Equity settled share-based payments under share-based payments plans are ultimately recognized as an expense in profit or loss with a corresponding credit to reserve for share-based payments, in equity.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from the previous estimate. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior period if share options ultimately exercised are different to that estimated on vesting.

Summary of significant accounting policies continued

4.12 Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

As Cabo Connection operates in the cannabis industry in California within the U.S., it is subject to the limits of Internal Revenue Code ("IRC") Section 280E under which Cabo Connection is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

4.13 Financial instruments

(a) Financial assets

(i) Recognition and initial measurement
The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

(ii) Classification and subsequent measurement
On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Summary of significant accounting policies continued

Financial assets are classified as follows:

- Amortized cost - assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of accounts receivable and due from related parties.
- Fair value through other comprehensive income - assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through other comprehensive income.
- Mandatorily at fair value through profit or loss - assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash.

- Designated at fair value through profit or loss – On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets designated to be measured at fair value through profit or loss.

(b) Financial assets

(iii) Impairment

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The Company applies the simplified approach for accounts receivables. Using the simplified approach, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Company assesses whether there has been a significant increase in credit risk since initial recognition or a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts and breaches of borrowing contracts such as default events or breaches of borrowing covenants. For financial assets with significant increase in credit risk since initial recognition and financial assets assessed as credit-impaired at the reporting date, the Company continues to recognize a loss allowance equal to lifetime expected credit losses.

4.13 Financial instruments (continued)

(i) Impairment (continued)

For financial assets measured at amortized cost, loss allowances for expected credit losses are presented in the statements of financial position as a deduction from the gross carrying amount of the financial asset.

Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

(ii) Derecognition of financial assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

(b) Financial liabilities

(i) Recognition and initial measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss. Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

(ii) Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method or where applicable fair value through profit and loss. Interest, gains and losses relating to a financial liability are recognized in profit or loss.

(iii) Derecognition of financial liabilities

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

(c) Summary of the Company's classification and measurements of financial assets and liabilities

	Classification and Measurement
Cash	FVTPL
Accounts receivable	Amortized cost
Due from related parties	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Lease liability	Amortized cost
Loan Payable	Amortized cost
Convertible Debenture	Amortized cost

4.14 Foreign currency transactions

Monetary assets and liabilities denominated in currencies other than functional currencies are translated into functional currencies at the rate of exchange in effect at the statements of financial position date. Non-monetary assets and liabilities are translated at the historical rates. Revenues and expenses are translated at the transaction date exchange rate. Foreign currency gains and losses resulting from translation are reflected in net comprehensive loss for the period.

The assets and liabilities of entities with a functional currency that differs from the presentation currency are translated to the presentation currency as follows:

- Assets and liabilities are translated at the closing rate on the statements of the financial position date;
- Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated at the rate on the dates of the transactions) for the year or period presented;
- Equity transactions are translated using the exchange rate at the date of the transaction; and
- All resulting exchange differences are recognized as a separate component of equity as reserve for foreign currency translation.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the foreign currency translation reserve.

4.15 Impairment of non-financial assets

The carrying amount of the Company's non-financial assets is reviewed at each financial reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized when the carrying amount of an asset or its Cash Generating Unit ("CGU") exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

4.16 Loss per share

Basic loss per share is calculated by dividing the net loss attributable to shareholders by the weighted average number of common shares outstanding during each of the years presented.

Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential securities. In order to determine diluted loss per share, it is assumed that any proceeds from the exercise of dilutive stock options would be used to repurchase common

4.17 Loss per share (continued)

shares at the average market price during the period. The diluted loss per share calculation excludes any potential conversion of stock options and convertible debt that would increase earnings per share or decrease loss per share.

4.18 Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. The proceeds from the exercise of stock options or warrants together with amounts previously recorded in reserves over the vesting periods are recorded as share capital. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12.

4.19 Equity units

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated between common shares and warrants based on the relative fair value of each instrument on the issuance date. Transaction costs directly attributable to the issuance of units are recognized as a reduction from equity.

4.20 Provisions and contingent liabilities

Provisions, where applicable, are recognized in other liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

5. Use of estimates, judgments and measurement uncertainty

The preparation of these Consolidated 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 critical judgements and significant estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are:

Expected credit loss

Management determines the expected credit loss by evaluating individual receivable balances and considering a member's financial condition and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as income when received. All accounts and other receivables are expected to be collected within one year of the statement of financial position date. Estimates includes the analysis of historical bad debts and the judgement used to predict future economic conditions when estimating expected credit losses;

5. Use of management estimates, judgments and measurement uncertainty (continued)

Expected credit loss (continued)

Estimated useful lives and depreciation of property, plant and equipment

The Company estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates.

Leases

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement, including lease term and discount rate. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension operation, or not to exercise a termination option. Where the rate implicit in a lease is not readily determinable, the discount rate of lease obligations are estimated using a discount rate similar to the Company's specific incremental borrowing rate. This rate represents the rate that the Company would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

Inventory valuation

The net realizable value of inventories represents the estimated selling price for inventories in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale. The determination of net realizable value requires significant judgment, including consideration of factors such as shrinkage, the aging of and future demand for inventory, expected future selling price the Company expects to realize by selling the inventory, and the contractual arrangements with customers. Reserves for excess and obsolete inventory are based upon quantities on hand, projected volumes from demand forecasts and net realizable value. The estimates are judgmental in nature and are made at a point in time, using available information, expected business plans, and expected market conditions. As a result, the actual amount received on sale could differ from the estimated value of inventory. Periodic reviews are performed on the inventory balance. The impact of changes in inventory reserves is reflected in cost of goods sold.

Impairment of non-financial assets

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow ("DCF") model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

5. Use of management estimates, judgments and measurement uncertainty (continued)

Share-based payment transactions and warrants.

The Company measures the cost of equity-settled transactions with employees and consultants by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield of the share option and forfeiture rate. Similar calculations are made in order to value warrants. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Compound financial instruments - convertible debentures

In order to determine the appropriate allocation between the equity and liability components of compound financial instruments, management must determine the fair value of a similar liability that does not contain an equity component. Determining this fair value requires management to make assumptions with respect to the expected future amount and timing of cash outflows and an appropriate discount rate to calculate present value.

Management also identifies and determines the fair value of embedded derivatives, including the extension option and redemption option contained in the convertible debentures, which requires estimates and judgements including but not limited to determining whether an embedded derivative is separated, discount rates, probability of debenture conversion, and future interest rates.

Going Concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operating expenditures and meet its liabilities for the ensuing year involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

6. 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 and IFRS Practice Statement 2:

On February 12, 2021, the IASB issued "Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)" with amendments that are intended to help preparers in deciding which accounting policies to disclose in their Consolidated Financial Statements. The amendments are effective for annual periods beginning on or after January 1, 2023. Adoption of these amendments is not expected to have a material impact on the Company's Consolidated Financial Statements in the future.

Non-current Liabilities with Covenants (Amendments to IAS 1)

The amendments to IAS 1 specify that only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to

(in thousands of Canadian dollars)

Non-current Liabilities with Covenants (Amendments to IAS 1) (continued)

disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and are to be applied retrospectively.

Amendments to IAS 8 – Accounting policies, changes in accounting estimates and errors:

On February 12, 2021, the IASB issued "Definition of Accounting Estimates (Amendments to IAS 8)" to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023. Adoption of these amendments is not expected to have a material impact on the Company's Consolidated Financial Statements in the future.

New standards and interpretations adopted during the year

Amendments to IAS 37 – Provisions, contingent liabilities and contingent assets:

On May 14, 2020, the IASB issued "Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)" amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Adoption of these amendments did not have a material impact on the Company's Consolidated Financial Statements.

7. Accounts receivable

		June 30, 2023		June 30, 2022
Accounts receivable	$	7,009	$	6,881
Expected credit loss		(2,337)		(696)
	$	4,672	$	6,185

Expected credit loss

Balance at beginning of period	$	696	$	158
Provided during the period		2,434		577
Written off during the period as uncollectible		(793)		(39)
Balance at end of period	$	2,337	$	696

During the year ended June 30, 2022, the Company provided for $566 of accounts receivable at Fume Labs. See Note 27.

(in thousands of Canadian dollars)

8. Prepaid expenses and deposits

	June 30, 2023	June 30, 2022
Deposits on inventory	$ 2,460	$ 2,567
Other prepaid expenses	2,382	1,217
	$ 4,842	$ 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 27 Other prepaid expense comprises of prepaid marketing brand development deposits $2,011K (2022 – $530K), prepaid insurance $269K (2022 – $294K) and other prepaid expenses $102K (2022 - $393K).

9. Inventories

	June 30, 2023	June 30, 2022
Finished goods and components	$ 10,741	$ 16,350
Inventory provision	(939)	(968)
	$ 9,802	$ 15,382

During the year ended June 30, 2023, the Company recognized $56,589 (2022 – $48,696) of inventories as an expense and recorded a net (pick up) write down of inventory of $89 (2022 – ($1,283)) 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 24.

10. 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. During the year ended June 30, 2023, the company wrote-off both promissory notes for $449. See note 27.

(in thousands of Canadian dollars)

11. 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	52	299	193	7	114	1,311	1,976
Disposals	-	(14)	(20)	-	-	(736)	(770)
Currency translation	2	12	12	-	17	45	88
As at June 30, 2023	**312**	**922**	**629**	**50**	**637**	**3,436**	**5,985**

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	-	-	-	11	-	(736)	(725)
Depreciation	63	121	168	14	52	478	897
Currency translation	-	(1)	(1)	-	6	(1)	3
As at June 30, 2023	**$ 212**	**$ 262**	**$ 218**	**$ 32**	**$ 386**	**$ 870**	**$ 1,982**

Net Carrying Amount							
As at June 30, 2022	$ 110	$ 481	$ 393	$ 35	$ 178	$ 1,687	$ 2,885
As at June 30, 2023	**$ 100**	**$ 659**	**$ 411**	**$ 18**	**$ 250**	**$ 2,565**	**$ 4,004**

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 27

(in thousands of Canadian dollars)

12. 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	73		73
Disposals	-		–
Effects of foreign exchange	36		36
As at June 30, 2023	**1,405**	**$**	**1,405**
Accumulated Depreciation			
As at June 30, 2021	-		-
Disposals	-		-
Depreciation	-		-
As at June 30, 2022	-		-
Disposals	-		-
Depreciation	-		–
As at June 30, 2023	**-**		**–**
Net Carrying Amount			
As at June 30, 2022	1,296	$	1,296
As at June 30, 2023	**1,405**	**$**	**1,405**

(in thousands of Canadian dollars)

13. Lease liabilities

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

Balance, June 30, 2021	**$**	**2,096**
Additions		871
Disposals		(375)
Interest expense		240
Lease payments		(924)
Effects of foreign exchange		16
Balance, June 30, 2022		**1,924**
Additions		1,311
Disposals (net)		(19)
Interest expense		439
Lease payments		(700)
Effects of foreign exchange		45
Balance, June 30, 2023	**$**	**3,000**

Current		345
Non-current		2,655
Balance, June 30, 2023	**$**	**3,000**

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	$	772
One to two years		790
Two to three years		809
Three to four years		829
Four to five years		558
Thereafter		850
Total undiscounted lease instalments payable		4,608
Less: impact of present value		(1,608)
Balance, June 30, 2023	**$**	**3,000**

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

(in thousands of Canadian dollars)

14. 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 June 30, 2023, 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		178
Balance, June 30, 2023		2,178
Deferred financing costs		
Balance, June 30, 2022		-
Additions		(144)
Amortization of deferred financing costs		57
Balance, June 30, 2023		(87)
Carrying amount at June 30, 2023	**$**	**2,091**
Current		200
Non-current		1,891
Carrying amount at June 30, 2023	**$**	**2,091**

15. Convertible Debenture

On June 13, 2023, the Company entered into a convertible debenture agreement with a principal amount of $1,540. Each Debenture Unit is comprised of: (i) one C$1 principal amount secured subordinated convertible debenture of the Company (a "Debenture"); and (ii) 6,250 share purchase warrants of the Company (each, a "Warrant"). The outstanding principal amount of each Debenture is convertible at the option of the holder, at any time prior to maturity, into common shares of the Company at a conversion price of C$0.06 per Common Share. Each Warrant is exercisable to acquire one Common Share at an exercise price of C$0.08 for a period of 36 months from the closing date of the Offering (the "Closing Date"). A total of 9,625,000 Warrants were issued in the Offering. The Debentures mature 36 months from the Closing Date, can be repaid at the option of the Company, and bear interest at a rate of 10% per annum, payable on the earlier of conversion, repayment, or maturity. The Debentures are secured by general security agreements over the Company's assets, but subordinated to the Company's senior secured lender. The loan debenture was valued using a 44% discount factor. The conversion option and warrants were valued using the Black and Scholes model and were valued at $603 and $206 respectively. See note 16 for further details on the warrant.

(in thousands of Canadian dollars)

15. Convertible Debenture (continued)

The carrying amount of convertible Debenture is as follows:

Balance, June 30, 2022	$	-
Advances		707
Interest expense accrual		12
Balance, June 30, 2023		719
Deferred financing costs		
Balance, June 30, 2022		-
Additions		(21)
Amortization of deferred financing costs		
Balance, June 30, 2023		(21)
Carrying amount at June 30, 2023	**$**	**698**

16. Share capital

Authorized – Unlimited number of common shares.
Issued and outstanding – common shares

The share activity for the year ended June 30, 2023 and 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	248,178		58
Outstanding at June 30, 2023	**124,188,060**	**$**	**81,430**

- 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.

(in thousands of Canadian dollars)

16. Share capital (continued)

Warrants

The changes in the number of warrants outstanding during the year ended June 30, 2023 and 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	10,375,000		0.09
Outstanding at June 30, 2023	**15,569,500**	**$**	**0.53**

- 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 3.36 %, 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 June 13th, 2023, 9,625,000 common share purchase warrants were issued relating to convertible debenture agreement. The purchase warrants are exercisable at $0.08 per share for a period of 36 months. The purchase warrants were valued at $0.04 per warrant using Black-Scholes valuation model with the following assumptions: share price $0.06, volatility 109%, risk-free rate 4.14%, 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:

	Number of options		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		0.56	8.59
Granted	795,000		0.12	9.50
Expired	(3,772,525)		0.55	-
Balance at June 30, 2023	**4,176,475**		**0.48**	**7.84**

(in thousands of Canadian dollars)

16. Share capital (continued)

Share based payments (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:

	June 30, 2023	June 30, 2022
Risk-free interest rate	3.36% - 4.14%	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	\$0.03 - \$0.40	\$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 (June 30 2022 - \$0.84).

The stock-based compensation expense of options was (\$166) (2022 – \$1,281) for the year ended June 30, 2023. The number of options exercisable at that date was 2,176,015 (June 30, 2022 – 2,781,653). As a result of employees leaving in fiscal 2023, reversal of compensation expense due to forfeitures of unvested options amounted to \$(998). Current year expense amounted to \$811 and together with the reversal of \$(998) net expense for the year is \$(187).

The following schedule summarizes options outstanding as at June 30, 2023:

Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Exercise Price	Number Exercisable
\$0.29	405,000	4.76	\$0.29	405,000
\$1.00	265,000	5.60	\$1.00	265,000
\$0.84	45,000	7.22	\$0.84	29,700
\$1.00	711,475	7.97	\$1.00	674,415
\$0.39	45,000	8.19	\$0.39	14,850
\$0.50	2,000,000	8.42	\$0.50	660,000
\$0.40	295,000	8.69	\$0.40	97,350
\$0.36	45,000	8.71	\$0.36	14,850
\$0.34	45,000	8.75	\$0.34	14,850
\$0.10	200,000	9.43		-
\$0.10	45,000	9.56		-
\$0.10	45,000	9.67		-
\$0.11	30,000	9.70		
\$0.56	4,176,475	7.90	\$0.67	2,176,015

(in thousands of Canadian dollars)

16. 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	-	-
$0.39	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	-	-
$0.61	7,154,000	8.59	$0.70	2,781,653

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 year ended June 30, 2023, the share-based payments expense was $6 (June 30, 2022 – $315) for the RSUs.

(in thousands of Canadian dollars)

16. Share capital (continued)

The RSU activity during the year ended June 30, 2023, and 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	(331,633)
Forfeited	(207,287)
June 30, 2023	5,088

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	980,027	(980,027)	-
Forfeited	-	(10,175)	(10,175)
June 30, 2022	1,512,347	544,008	2,056,355
Vested	331,633	(331,633)	-
Forfeited		(207,287)	(207,287)
June 30, 2023	1,843,980	5,088	1,849,068

Of the total 331,663 shares vested, all units were settled in shares with a total of 83,445 units withheld in lieu of tax withholdings resulting in a net share release of 248,178.

17. 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 years ended June 30, 2023 and 2022 was approximately $599 and $234 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.

(in thousands of Canadian dollars)

17. Commitments and contingencies (continued)

Legal matters (continued)

During the year ended June 30, 2023, the Company began legal action against Hexo Corp ("Hexo"), 48 North Cannabis Corp ("48North") and their affiliates due to a material breach in a Supply and Services Agreement (the "Agreement") and a Sales Representation Agreement. The Agreement was entered into between Fume Labs and 48North, which was acquired by Hexo on September 1, 2021. Following the acquisition, Hexo announced the closure of the Brantford cannabis processing facility. Per the Agreement, 48North was required to grant access to Fume Labs to the facility in order to perform the extraction of cannabis distillate, and 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 48North that the Agreement was terminated due to uncured material breach. On September 20, 2023 all parties entered into a settlement agreement to forgo the outstanding legal actions related to the Agreement and the Sales Representation Agreement. The company received $450 in cash in consideration.

18. 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 $333 (2022- $328) 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.

		June 30, 2023		June 30, 2022
Due from Shareholders	$	333	$	328
Due from related parties	**$**	**333**	**$**	**328**

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 $1,565 for the year ended June 30, 2023 (2022 – $2,212), which included $1,136 of salaries (2022 – $1,088) and $429 (2022 – $1,124) 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 year ended June 30, 2023, the Company purchased $nil (2022 – $379) 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 year ended June 30, 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 minority interest..

(in thousands of Canadian dollars)

19. Geographical and segment information

The Company operates in two segments in two geographical locations: Canada and USA and cannabis distribution and cannabis related distribution. 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:

	June 30, 2023	June 30, 2022
Revenues		
Canada	$ 20,626	$ 28,688
USA	47,887	37,461
	$ 68,513	$ 66,150

	June 30, 2023	June 30, 2022
Non-Current Assets		
Canada	$ 810	$ 971
USA	4,856	3,210
	$ 5,666	$ 4,181

The following table presents the Company's revenues and assets by segment:

	June 30, 2023	June 30, 2022
Revenues		
Cannabis distribution	$ 29,822	$ 2,904
Cannabis related distribution	38,692	63,246
	$ 68,513	$ 66,150

	June 30, 2023	June 30, 2022
Non-Current Assets		
Cannabis distribution	$ 3,346	$ 3,043
Cannabis related distribution	2,321	1,138
	$ 5,666	$ 4,181

(in thousands of Canadian dollars)

20. Finance (income) expense

		June 30, 2023		June 30, 2022
Interest income	$	(32)	$	(18)
Interest expense		707		254
Net finance expense	$	675	$	236

Interest income includes interest on interest bearing bank account of $31 (2022 – $12), service charge income on delinquent customer accounts of $nil (2022 – $nil) and interest income on promissory note to related party of $1 (2022 – $6).

The interest expense includes interest on lease liability of $518 (2022 – $254) and accrued interest expense on loan payable of $189 (2022 – $nil).

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

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

		June 30, 2023		June 30, 2022
Accounts receivable	$	(231)	$	(4,570)
Prepaid expenses and deposits		(1,507)		(1,555)
Inventories		5,609		1,828
Accounts payable and accrued liabilities		(970)		2,780
Taxes recoverable		291		584
	$	3,192	$	(933)

22. 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.

23. 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.

(in thousands of Canadian dollars)

23. Financial instruments (continued)

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 June 30, 2023			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	2,837	-	-	2,837

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

At June 30, 2023 and 2022, the Company's financial instruments consist of cash, accounts receivable, due from related parties, loan payable, accounts payable, accrued liabilities, and convertible debenture loan payable. The fair values of accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to the relatively short-term to maturity. The difference between the fair value of the loan payable and the carrying value is insignificant as the loan matures within the next year. 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 fair value of the convertible debenture loan payable is equal to its carrying amount of $698 as market interest rates were used to value the financial instrument at issuance of the debenture.

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.

(in thousands of Canadian dollars)

23. Financial instruments (continued)

i. Credit risk:

The Company's cash and cash equivalents subjects the Company to credit risk. At June 30, 2023, the Company had cash and cash equivalents of approximately $2.8 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 and cash equivalents 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 June 30, 2023 and one customer comprising 13% of trade receivables at June 30, 2022.

At June 30, 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 June 30, 2023, $5,127 (June 30, 2022 – $2,406) 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 receivable at the reporting date was:

	June 30, 2023	June 30, 2022
	Gross	Gross
Not past due	$ 1,883	$ 3,793
Past due 1-30 days	1,454	825
Past due 31-90 days	1,284	771
Past due 90+ days	2,388	1,492
	$ 7,009	$ 6,881

Past due	0 days	1-30 days	31-90 days	90+ days	Total
ECL rate	0.27%	0.32%	5.74%	94.36%	
ECL Allowance	$ 5	$ 5	$ 74	$ 2,254	$ 2,337

Past due	5,127
ECL Allowance	$ (2,337)
Past due, not impaired	$ 2,790

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

23. Financial instruments (continued)

i. Credit risk (continued):

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.

ii. Interest rate risk:

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

iii. 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 70% (2022 – 57%) 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 June 30, 2023, the Company had U.S. dollar denominated cash of approximately US$1,018 (2022 – US$3,356) and U.S. dollar denominated net assets of approximately US$4,467 (2022 – US$13,326). 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 June 30, 2023, would have increased the foreign exchange gain for the period by approximately $223 (2022 – $666) 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.

(in thousands of Canadian dollars)

23. Financial instruments (continued)

b) Liquidity risk (continued):

The following are the contractual maturities of financial liabilities, including interest payments as at June 30, 2023.

	Carrying amount	Contractual cash flow	2023	2024	2025	2026	2027	Thereafter
Lease liability	$ 3,000	$ 4,608	$ 772	$ 790	$ 809	$ 829	$ 558	$ 850
Loan payable	2,091	2,400	200	2,200	-	-	-	-
Trade and other payable	7,061	7,061	7,061	-	-	-	-	-
Total	$ 12,152	$ 14,069	$ 8,033	$ 2,990	$ 809	$ 829	$ 558	$ 850

24. Income taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 27% (2022 – 27%) to the effective tax rate is as follows:

	2023	**2022**
Net Income (Loss) before recovery of income taxes	(24,671)	(16,142)
Expected income tax (recovery) expense	(6,661)	(4,278)
Tax rate changes and other adjustments	(5)	144
Non-deductible expenses	4,551	347
Share issuance cost booked directly to equity	218	(162)
Stock based compensation	(50)	42
Adjustments in respect of prior periods	1,173	-
Difference in tax rates	-	-
Potential income tax recovery not recognized	-	-
Utilization of losses not previously recognized	-	-
Change in tax benefits not recognized	1,088	3,854
Income tax (recovery)	314	(52)

The Company's income tax (recovery) is allocated as follows:

Current tax (recovery) expense	314	(52)
Deferred tax (recovery) expense	-	-
	314	(52)

(in thousands of Canadian dollars)

24. Income taxes (continued)

Deferred tax

The following table summarizes the components of deferred tax:

Deferred Tax Assets	**2023**	**2022**
Capital lease obligation	432	457
Share issuance costs	12	-
Operating tax losses carried forward – Canada	252	37
Operating tax losses carried forward - USA	0	2
Subtotal of Assets	697	496

Deferred Tax Liabilities	**2023**	**2022**
Property, plant and equipment	-	(13)
Convertible debentures	(230)	-
Right of use assets	(431)	(459)
Loan receivable	(33)	(24)
Subtotal of Liabilities	**(697)**	**(496)**
Net deferred tax liability	**-**	**-**

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2023	**2022**
Property, plant and equipment	726	695
Intangible Assets	55	411
Capital lease obligation	377	244
Inventory	-	492
Loan receivable	135	302
Other	35	11
Share issuance costs	910	1,627
Reserves	2,688	1,581
Operating tax losses carried forward - Canada	18,772	14,806
Operating tax losses carried forward - US	20,974	19,138
Charitable donations carry forward	3	3
	44,675	**39,310**

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

(in thousands of Canadian dollars)

24. Income taxes (continued)

The Canadian and U.S. operating tax loss carry forwards expire as noted in the table below.

The capital loss carry forward may be carried forward indefinitely, but can only be used to reduce capital gains.

The remaining deductible temporary differences may be carried forward indefinitely.
Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's operating tax losses expire as follows:

Year	Canada	USA
2038	-	618
2039	-	2,443
2040	3,929	-
2041	6,074	-
2042	4,222	-
2043	4,764	-
Thereafter	-	17,913
Total	18,772	20,974

The Company has operations in the cannabis industry in the U.S., therefore the Company can be subject to the limits of IRC Section 280E for U.S. federal income tax purposes. Under IRC Section 280E, the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E. The Company's operations in the cannabis industry are concentrated in the State of California, which does not conform to IRC Section 280E, accordingly, IRC Section 280E does not apply to any state income tax filings.

(in thousands of Canadian dollars)

25. Non-controlling interest

The Company holds a 49.8% interest in HC Solutions Holdings Inc., HC Solutions of California LLC and Cabo Connection. The remaining 50.2% 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		13,227
Additions to Equity		(4,977)
Cumulative Translation Adjustment		(209)
Share of net loss for the period		(6,451)
Balance, June 30, 2023	$	3,658

On September 13, 2022 Green Acre's Distribution Corp. invested an additional $7,866 into HC Solution Inc. Green Acre Distribution acquired an additional 45 shares. This subscription changed the company’s ownership in HC Holdings Inc. to 55%.

On February 27, 2023 Green Acre's Distribution Corp. invested an additional $2,715 into HC Solution Inc. Green Acre Distribution acquired an additional 15 shares. This subscription changed the company’s ownership in HC Holdings Inc. to 50%.

On June 15, 2022 Green Acre's Distribution Corp. invested an additional $2,646 into HC Solution Inc. Green Acre Distribution acquired an additional 14.9697 shares. In addition, the company acquired an additional 14.2197 share in exchange for $2,476 of loan forgiveness. This subscription changed the company’s ownership in HC Holdings Inc. to 49.8%.

The company’s board of directors and executive leadership exhibits material control over HC Solution Inc and the underlying business operations. As such their results have been consolidated as part of the Financial Statements.

(in thousands of Canadian dollars)

Summarized Financial Information (before intercompany elimination):

Balance Sheet	
Current Assets	10,317
Non-current assets	3,346
Current Liabilities	(1,996)
Non-current Liabilities	(852)

Income Statement	
Revenue	29,822
Profit or Loss	(15,444)
Total comprehensive income	(15,656)

Cash Flow		
Net change in cash and cash equivalents		(1,133)
Exchange differences		(536)
Cash and cash equivalents, beginning of period		2,465
Cash and cash equivalents, end of period	**$**	**796**

26. Restructuring charge

The restructuring charge for the year ended June 30, 2023 includes amounts relating to severance pay $533K and warehouse closure costs $182.

27. 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:

In June 2023, the Company provided for two promissory notes receivable from a third-party contractual counterparty which were in default of the notes. As a result, during the year ended June 30, 2023, the Company recognized impairment and allowances:

		June 30, 2023		June 30, 2022
Computer hardware	$	-	$	4
Leasehold improvements		-		966
Furniture and equipment		-		759
Inventory		-		823
Prepaid expenses and deposits		-		62
Loan Receivable		552		-
Accounts payable		-		566
	$	552	$	3,180

28. Subsequent event

On August 22, 2023, Green Acre's Distribution Corp. invested an additional US $4MM investment in HC Solutions Holdings Inc “HCI. This takes Green Acre's ownership stake in HCI from 50.2% to 75%, while Humble retains the remaining 25%. Green Acre has also granted to Humble & Fume an option for a period of six months to acquire 50% of the common shares of HCI acquired by Green Acre pursuant to the subscription described above for an aggregate purchase price of $2 million USD.

On September 20, 2023, the Company settled their outstanding legal actions against Hexo and 48North for a cash settlement of $450. No further legal action to follow.