February 23, 2023

Humble & Fume Inc.

Management's Discussion & Analysis of Financial Condition and Results of Operations

For the Six and Three Months Ended December 31, 2022 and 2021

humble + fume

Humble & Fume Inc.
Management's Discussion & Analysis of Financial Condition and Results of Operations
For the three and six months ended December 31, 2022

Management's Discussion and Analysis

This management discussion and analysis of the financial condition and results of operations ("MD&A") of Humble & Fume Inc. (the "Company" or "H&F" or "Humble") is for the three and six-month period ended December 31, 2022 and 2021. This MD&A should be read in conjunction with the interim condensed consolidated financial statements and the notes thereto for the three and six months ended December 31, 2022 and 2021 (the "Interim Financial Statements"). The Interim Financial Statements and this MD&A have been reviewed by the Company's Audit Committee and approved by the Company's Board of Directors on February 23, 2023.

This MD&A provides information that the management of the Company believes is important to assess and understand the results of operations and financial conditions of the Company. All amounts are presented in Canadian dollars, unless otherwise noted. The Interim Financial Statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" and with accounting policies adopted in the Company's audited financial statements for the year ended June 30, 2022.

This MD&A may contain forward-looking information that is based on the Company's expectations, estimates and projections regarding its business and the economic environment in which it operates. Forward-looking information contained herein is made as of the date of this MD&A and is not a guarantee of future performance and involves risks and uncertainties that are difficult to control or predict. Readers should refer to the "Forward Looking Statements" section in this MD&A.

Additional information filed by the Company with the Canadian Securities Administrators, including quarterly reports, annual reports and annual information forms are available on-line at www.sedar.com.

Forward-Looking Statements

This MD&A may contain statements that are "forward-looking statements". These include statements about the Company's expectations, beliefs, plans, objectives and assumptions about future events or performance. These statements are often, but not always, made through the use of words or phrases such as "will likely result", "are expected to", "will continue", "anticipate", "believes", "estimate", "intend", "plan", "would", and "outlook" or statements to the effect that actions, events or results "will", "may", "should" or "would" be taken, occur or be achieved. Forward-looking statements are not historical facts, and are subject to a number of risks and uncertainties beyond the Company's control. Accordingly, the Company's actual results could differ materially from those suggested by these forward-looking statements for various reasons discussed throughout this analysis. Forward-looking statements are made on the basis of the beliefs, opinions and estimates of the Company's management on the date the statements are made, and the Company does not undertake any obligation to update forward-looking statements if the circumstances or management's beliefs, opinions or estimates should change. Readers should not place undue reliance on forward-looking statements.

The cannabis industry involves risks and uncertainties that are subject to change based on various factors. The forward-looking statements contained herein concerning the cannabis industry and the general expectations of the Company concerning the cannabis industry are based on estimates prepared by the Company using data from publicly available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of the cannabis industry. Such data is inherently imprecise. The forward-looking statements contained herein are based on certain key expectations and assumptions, including, but not limited to, expectations and assumptions concerning: government regulations, including future legislative and regulatory developments involving cannabis and the timing thereof; the availability of equipment, skilled labor and services needed for cannabis operations; demand, developments and trends in the cannabis industry; and competition in the cannabis industry in the markets in which the Company operates or plans to operate. Forward-looking statements may relate to future financial conditions, results of operations, plans, objectives, performance or business developments. These statements speak only as at the date they are made and are based on information currently available and on the then current expectations of the party making the statement and assumptions concerning future events, which are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties related to: the immaturity of the cannabis industry and limited comparable, competitive and established industry best practices; public opinion and perception of the cannabis industry; the U.S. federal regulatory landscape and enforcement related to cannabis, including political risks, civil asset forfeiture and regulation by additional regulatory authorities; the difficulties cannabis businesses face accessing and maintaining banking or

financial services due to federal regulations; and disparate state-by-state regulatory landscapes and licensing regimes for medical and adult-use cannabis.

Non-IFRS Measures and Reconciliation of Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures including key performance indicators used by management and typically used by the Company's competitors. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore not necessarily comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of Humble's results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of the financial information reported under IFRS. These non-IFRS measures are used to provide investors with supplemental measures of the operating performance and liquidity and thus highlight trends in the business that may not otherwise be apparent when relying solely on IFRS measures. The Company also believe that securities analysts, investors, and other interested parties frequently use non-IFRS measures, industry metrics, in the evaluation of companies in the Cannabis industry. Management also uses non-IFRS measures and industry metrics to facilitate operating performance comparisons from period to period, the preparation of annual operating budgets and forecasts and to determine components of executive compensation. The non-IFRS measures and industry metrics referred to in this MD&A include "Adjusted EBITDA" and "Free Cash Flow".

Humble & Fume Inc. Business Overview

Humble & Fume Inc. is a leading North American distributor of cannabis and cannabis accessories. Humble is committed to our brand and retail partners to help grow their businesses by providing data-driven insights, proven go-to-market expertise and best-in-class distribution for cannabis and cannabis accessories. As the only fully-integrated cannabis distribution solution, Humble bridges the gap for retailers, Canadian licensed producers, American multi-state operators, and cannabis customers increasing sales penetration to maximize financial performance. With over 20 years of North American operating experience, Humble has cultivated extensive vendor and customer relationships distributing premium cannabis consumables and consumption devices. The Company is comprised of four subsidiaries that represent its vertical integration across North America with over150 supporting staff. Humble operates its business through its wholly-owned subsidiaries, B.O.B. Headquarters Inc. ("BobHQ"), Humble+Fume, Windship Trading LLC ("Windship"), and Humble+ Cannabis Solutions ("HCS").

Illegality of Cannabis at the U.S. Federal Level

Notwithstanding the permissive regulatory environment of medical, and in some cases, recreational marijuana, at the state level, it remains illegal under U.S. federal law to cultivate, manufacture, distribute, sell or possess marijuana in the U.S and enforcement of relevant laws is a significant risk. Because federal law prohibits transporting any federally restricted substance across state lines, cannabis cannot be transported across state lines. As a result of current federal law prohibitions, the U.S. cannabis industry is conducted on a state-by-state basis.

To the best of Humble's knowledge, it is in compliance with U.S. state law and applicable licensing framework for the products or operations of Humble in California. Strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under U.S. federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company.

California Regulatory Environment

In 1996, California was the first state to legalize medical marijuana through Proposition 215, the Compassionate Use Act of 1996 (the "CUA"). This legalized the use, possession and cultivation of medical marijuana by patients with a physician recommendation for treatment of cancer, anorexia, AIDS, chronic pain, spasticity, glaucoma, arthritis, migraine, or any other illness for which marijuana provides relief.

In 2003, Senate Bill 420 was signed into law establishing an optional identification card system for medical marijuana patients and creation of patient "collectives." In September 2015, the California legislature passed three bills collectively known as the "Medical Cannabis Regulation and Safety Act" (the "MCRSA"). The MCRSA established a licensing and regulatory framework for medical marijuana businesses in California. The system created multiple license types for dispensaries, infused products manufacturers, cultivation facilities, testing laboratories, transportation companies and distributors. Edible infused product manufacturers would require either volatile solvent or non-volatile solvent manufacturing licenses depending on their specific extraction methodology. Multiple agencies would oversee different aspects of the program and businesses would require a state license and local approval to operate. However, in November 2016, voters in California overwhelmingly passed Proposition 64, the "Adult Use of Marijuana Act" ("AUMA") creating an adult-use marijuana program for adult-use 21 years of age or older. In June 2017, the California State Legislature passed Senate Bill No. 94, known as Medicinal and Adult-Use Cannabis Regulation and Safety Act ("MAUCRSA"), which combined MCRSA and AUMA to provide one set of regulations to govern medical and adult-use licensing regime for cannabis businesses in the state of California. MAUCRSA is codified at California Business and Professions Code sections 26000, *et seq*.

MAUCRSA went into effect on January 1, 2018. Until recently, the three agencies that regulated cannabis at the state level were the California Department of Consumer Affairs' Bureau of Cannabis Control (the "BCC"), California Department of Food and Agriculture (the "CDFA"), California Department of Public Health (the "CDPH"). In July 2021, the BCC, CDFA, and CDPH were consolidated by California Assembly Bill 141 (approved by Governor July 12, 2021) into the California Department of Cannabis Control (the "DCC"), which now acts as the sole state regulatory agency responsible for the licensing and regulations of all cannabis businesses. The California Department of Tax and Fee Administration ("CDTFA") oversees tax collection for various cannabis-specific state taxes.

Compliance with California Law

Under MAUCRSA, licensed cannabis operators are required to obtain both local and state authorizations to operate and comply with state regulations under California Code of Regulations, Title 4, Division 19, and applicable local regulations.

HC Solutions Holdings, Inc., a Delaware corporation ("HC Solutions"), wholly-owned by Humble, operates Cabo Connection, a California corporation ("Cabo"). Cabo is a licensed cannabis manufacturer and distributor located at a 4,000 square foot facility in the City of Los Angeles. Cabo has obtained local authorization from the City of Los Angeles Department of Cannabis Regulation (the "DCR") and DCC for manufacturing and distribution activities.

HC Solutions ensures regulatory compliance with its inside compliance department and outside legal counsel. In 2022, HC Solutions hired Alyssa Clemmer to serve as its Director of Compliance. Prior to joining HC Solutions, Ms. Clemmer was the Compliance Director for Eaze. HC Solutions also relies on outside counsel Weinberg Gonser Frost LLP, a Los Angeles-based law firm with counsel dedicated to advising cannabis businesses on California regulatory compliance. Cabo is in compliance with applicable state and local law, regulations, and ordinances.

HC Solutions has comprehensive inventory management procedures, which are compliant with the rules set forth by the DCC and all other applicable state and local laws, regulations, ordinances, and other requirements. These procedures ensure strict control over Cabo's cannabis and cannabis product inventory from delivery by a licensed distributor to sale or delivery to a consumer, or disposal as cannabis waste. Such inventory management procedures also include measures to prevent contamination and maintain the safety and quality of the products distributed by Cabo.

Reporting Requirements

The state of California selected Franwell Inc.'s METRC solution ("METRC") as the state's track-and-trace ("CCTT") system used to track commercial cannabis activity and movement across the distribution chain ("seed-to-sale"). The METRC system is mandatory for all licensed operators in the state of California. The system allows for other third-party system integration via application programming interface ("API"). Cabo utilizes DISTRU, as its inventory management software, which provides real-time reporting of its commercial cannabis activity to CCTT.

Other Activities in the US

Windship, a wholly-owned Texas subsidiary of Humble operates as a leading distributor for the smoke shop and cannabis accessories industries in the United States. Since 2010, Windship has serviced thousands of smoke shop retailers, sub-distributors, e-commerce companies, CBD retailers and currently offers over 5,000 products in their portfolio. Windship has active operations in Kyle TX, with international distribution capabilities as well.

Humble's Wholly Owned Operating Subsidiaries & Brands

Humble+Fume and B.O.B. Headquarters Inc.

Humble+Fume and BobHQ are wholesale distributors of cannabis consumption devices for headshops, smoke shops, and licensed cannabis stores across Canada. With one of the largest portfolio offerings of smoking accessories in Canada, including grinders, papers, pipes, vaporizers, and cleaning products, Humble+Fume and BobHQ are the distribution partners of choice by retailers. Fulfilling from a warehouse facility strategically located in Brandon, Manitoba Humble+Fume and BobHQ reach customers coast-to-coast. A key strength to Canadian distribution operations is the high-quality brand portfolio, represent premium cannabis accessory brands such as Storz & Bickel, OCB, GRAV, PAX, Pulsar, and BIC.

Windship Trading LLC

Windship is one of the leading distributors of cannabis consumption devices for headshops and smoke shops in the United States ("U.S."). Since 2010, Windship has serviced thousands of smoke shop retailers, sub-distributors, e-commerce companies and CBD retailers. Currently offering over 5,000 products, including grinders, papers, pipes, vaporizers, and cleaning products, Windship services the whole cannabis experience. Windship has active operations in Kyle, Texas, with international distribution capabilities as well, allowing the business to service any customer in the U.S. within 48 hours. Windship has strong brand partnerships with several leading cannabis accessory brands in the U.S. including, Storz & Bickel, CCELL, OCB, and PUFFCO.

Humble+ Cannabis Solutions

HCS is an integrated cannabis sales solution of its kind in North America. HCS makes sales, procurement, order management and fulfillment seamless; streamlining and simplifying the process for all involved. The team is focused on driving revenue and growth while reducing operating costs for cannabis brands. HCS distributes both cannabis and cannabis accessories across all 10 provinces to over 1,000 retail locations in Canada.

HCS – US

In the US, HCS acts as a complete sales agency, fulfillment center and distribution service with coverage across California. HCS is a category leading supplier with both private key accounts and government customers, with a deep understanding of how to operate within the regulated market. HCS provides a one-stop solution for retailers, a natural business partner who can deliver brand education, trade marketing materials and customer support. HCS is the exclusive representative of cannabis brands including Cookies, Canndescent California, Humboldt Farms, and Korova.

Overview

As a leading North American distributor dedicated to satisfying the key moments in the overall cannabis consumption experience, we provide our brand and retail partners actionable, data-driven insights, proven go-to-market expertise and best-in-class distribution for cannabis and cannabis accessories. We remain focused on optimizing the business and supporting ongoing growth opportunities to ensure we deliver on this commitment.

Highlights include:

- A new leadership team has been introduced with a focus on the following:
  - Accelerating the growth of the Cannabis Business
  - Continuing to drive change management to develop effective and efficient operations.
  - Margin enhancement within the North American accessories business
  - Prioritize our white-label offerings to deliver a differentiated service to our customers that generate accretive margins.
- Q2 saw a decrease in operating expenses of $2 million or 30% year over year and $3.5 million or 27% for the six months year over year in the North American accessories and Canada cannabis business. This is offset by increased costs of $4.4 million and $8.5 million relating to expanding the California cannabis distribution business for three and six months, respectively.
- Q2 saw continued growth of our California cannabis distribution business, generating revenue of a quarter-over-quarter increase of 177%.
- Q2 saw gross margin improve to 17.1% compared to 11.9% in Q1 2022. Our focus on driving efficiencies in our North American accessories business reduced overall inventory by 14% or $1.5 million. The team continues to focus on margin-enhancing products and opportunities.

OPTIMIZING FOR FUTURE GROWTH

The leadership team has implemented a new approach to analyze our product offering within the North American accessories business, focusing on high velocity, margin-enhancing SKUs. This disciplined approach is expected to provide working capital and gross profit benefits.

The cannabis distribution business continues to grow, predominantly driven by the success of our efforts in the California business. The organization actively seeks to increase the number of brands we represent to bolster our offering across the portfolio. Ensuring we have the most in-demand brands is central to building long-lasting relationships with our retail partners. Our focus on portfolio development will optimize the use of the current assets and generate a greater return on investment.

CONTINUED RIGHTSIZING OF OUR BUSINESS

Inventory levels within the North American accessories business continue to decrease, selling off old/slow-moving items. Year over year inventory has decreased by $6.1m, with the prior year having a balance of $15.8m vs the current balance of $9.7m. Quarter-over-quarter inventory has decreased by $1.5m. The business has adopted an ongoing disciplined process to ensure a proactive review of inventory levels, SKU rationalization, and right-sizing the portfolio.

Key Developments During the Quarter

December 5, 2022

The Company announced that Matthew MacKay has been appointed the Chief Financial Officer effective December 5, 2022. He replaces Graham Meneray, who is stepping down as Chief Financial Officer to pursue other career opportunities.

Mr. MacKay is a Chartered Financial Analyst and graduated from Brock University with a Bachelor of Business Administration and Finance.

Key Developments Subsequent to the Quarter

January 12, 2023

The Company announced that current Chairman of the Board Jakob Ripshtein has been appointed Chief Executive Officer effective January 13, 2023. He replaces Joel Toguri, who is stepping down as Chief Executive Officer to pursue other career opportunities.

Mr. Ripshtein brings over thirty years of experience leading corporate strategy, marketing, and sales and a deep understanding of the cannabis industry. He previously served as the President of Aphria Inc., which was acquired by Tilray Brands Inc. Before that, he was President of Diageo Canada, where he oversaw significant growth, which led to him being named CFO of North America.

Results of Operations

Key Components of Results of Operations

Despite operating in multiple countries, the Company has always functioned as a single economic entity, managed by one team that oversees all aspects of its operations. For this reason, Humble considers its consolidated Company as its sole reporting segment. However, as the Company expands, its reporting practices may change to reflect any organizational shifts.

The Company currently generates revenue through the distribution of cannabis and cannabis accessories in Canada and the United States. Revenue is generated through the sale of:

- B2B wholesale of cannabis accessories; and
- Service fees for brand partners through Humble Cannabis Solutions.

Cost of revenue includes the cost of inventory sold, production costs expensed and impairment charges. Direct and indirect production costs include labor, processing, testing, packaging, quality assurance, security, inventory, shipping, depreciation of production equipment, production management and other related expenses.

Primary operating expenses are as follows:

- General and Administrative. General and administrative expenses are comprised primarily of rent, travel and general office and administrative expenses, consulting and professional fees and credit impairment losses.
- Sales and Marketing. Sales and marketing expenses are comprised primarily of costs relating to advertising and marketing events and travel expenses related to the sales and marketing teams.
- Salaries and wages. Salaries and wages comprise of employee salaries and benefits expenses for administrative, sales, finance, legal and human resources teams.
- Operations and customer support. Operations and customer support comprise of shipping costs and repairs relating to any customer support.
- Amortization and depreciation. Amortization and depreciation expense primarily relates to depreciation on property and equipment and right-of-use asset. Property and equipment are comprised of furniture and office equipment, leasehold improvements and land and building. Right-of-use asset relates to office and warehouse leases that are required to be recognized under IFRS 16.
- Share based compensation. Share based compensation expenses are comprised of the value of stock options granted to employees expensed over the vesting period of the options.

Summary of Factors Affecting Performance

The Company believes that the growth and future success of Humble's business depends on many factors, including those described below. While each of these factors presents significant opportunities for the business, they also pose important challenges, some of which are discussed below and in the "Risk Factors" section.

The following table outlines the Company's condensed consolidated statements of loss and comprehensive loss for six months ended December 31, 2022 and 2021.

		Three months		Six months	
		2022	2021	**2022**	2021
Revenues	*Note*				
Sale of products revenue		**$ 19,090,445**	$ 16,159,436	**$ 36,832,000**	$ 33,304,107
Service revenue		**522,055**	693,849	**1,177,020**	1,600,809
Total revenue		**19,612,500**	16,853,284	**38,009,020**	34,904,916
Cost of sale of products		**16,256,940**	14,429,827	**32,456,573**	28,294,552
Gross Margin		**3,355,560**	2,423,457	**5,552,447**	6,610,364
Operating expenses					
General and administration		**2,740,138**	1,455,377	**4,387,433**	2,887,838
Sales and marketing		**509,108**	320,440	**1,407,981**	675,981
Salaries and wages		**4,291,989**	3,206,077	**8,461,035**	6,618,759
Operations and customer support		**596,363**	211,052	**2,093,979**	495,439
Depreciation and amortization	*9*	**257,374**	258,694	**462,692**	519,200
Share based payments	*13*	**200,791**	392,293	**508,000**	888,217
Restructuring charge	*22*	**399,719**	720,995	**566,420**	720,995
		8,995,482	6,564,928	**17,887,540**	12,806,429
(Loss) Income from operations		**(5,639,922)**	(4,141,471)	**(12,335,093)**	(6,196,065)
Other (income) expenses					
Finance expense (income)		**185,263**	68,832	**298,950**	131,715
Other (income) expenses		**(39,507)**	113,206	**(70,664)**	110,933
Foreign exchange (gain) loss		**971,864**	(136,724)	**(1,383,607)**	(573,884)
Total other (income) expense		**1,117,620**	45,314	**(1,155,321)**	(331,236)
Loss before tax		**(6,757,542)**	(4,186,785)	**(11,179,772)**	(5,864,829)
Income tax expense (recovery)		**318**	(34,855)	**307,383**	(45,126)
Net loss		**(6,757,860)**	(4,151,930)	**(11,487,155)**	(5,819,703)
Unrealized foreign currency translation gains (losses)		**461,870**	242,597	**245,640**	37,211
Total comprehensive loss		**$ (6,295,990)**	$ (3,909,333)	**$ (11,241,515)**	$ (5,782,492)
Total comprehensive loss attributable to:					
Shareholders		**$ (5,022,027)**	$ (3,909,333)	**$ (8,867,052)**	$ (5,782,492)
Non-controlling interest		**(1,273,963)**	-	**(2,374,463)**	-
		$ (6,295,990)	$ (3,909,333)	**$ (11,241,515)**	$ (5,782,492)
Basic loss per share		**$ (0.04)**	$ (0.04)	**$ (0.07)**	$ (0.05)
Weighted average number of common shares		**124,165,719**	114,841,491	**124,162,322**	109,685,058
Diluted loss per share		**$ (0.04)**	$ (0.03)	**$ (0.07)**	$ (0.05)
Fully diluted weighted average number of common shares		**138,924,821**	128,692,119	**138,921,424**	123,535,686

Table below quantifies balance sheet exposure to U.S. marijuana-related activities:

Balance Sheet	%
Total Assets	48%
Total Liabilities	33%
Total Equity	5%

Quarterly Results of Operations

The following table sets forth selected quarterly statements of operations data for each of the previous 9 fiscal quarters commencing December 31, 2020 and ending December 31, 2022.

	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	December31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020
	$	$	$	$	$	$	$	$	$
Revenue	19,612,500	18,396,520	15,133,716	16,111,214	16,853,284	18,051,632	19,404,102	18,482,752	16,630,591
Net loss	(5,390,440)	(3,676,911)	(7,235,987)	(2,545,074)	(4,151,930)	(1,667,773)	(88,904)	(5,837,386)	(3,878,232)
Loss per share- diluted	(0.04)	(0.03)	(0.06)	(0.02)	(0.04)	(0.02)	(0.00)	(0.10)	(0.07)
Fully diluted weighted Average Number of Shares	124,165,719	124,158,924	123,924,327	123,824,628	114,841,491	104,528,625	58,624,069	55,857,330	57,464,778

Revenue

Six months ended December 31, 2022				Three months ended December 31, 2022			
2022	2021	Change		2022	2021	Change	
$	$	$	%	$	$	$	%
38,009,020	34,904,916	3,104,104	9%	19,612,500	16,853,284	2,759,216	16%

Consolidated revenue increased from $16,853,284 to $19,612,500 or 16% for the three months ended December 31, 2022, compared to the same period in 2021. Revenues from U.S. operations totaled $12,056,274 reflecting an increase of $2,499,229 or 26% and revenue from Canadian operations declined to a total of $8,176,797 reflecting a decrease of $2,154,342 or -24% this is driven by the focus on higher margin products and liquidation of slow moving inventory items.

Consolidated revenue increased from $34,904,916 to $38,009,020 or 9% for the six months ended December 31, 2022, compared to the same period in 2021. The increase in year-over-year revenue in the U.S. is attributable to management's continued focus on the California Cannabis distribution. Management believes there are significant growth opportunities available in this business unit.

Cost of Revenue

Six months ended December 31, 2022				Three months ended December 31, 2022			
2022	2021	Change		2022	2021	Change	
$	$	$	%	$	$	$	%
32,456,573	28,294,552	4,162,021	15%	16,256,940	14,429,827	1,827,113	13%

Cost of revenue increased from $14,429,827 to $16,256,940 or 13% for the three months ended December 31, 2022, compared to the same period in 2021. The increase in cost of revenue over this period is largely attributable to the growth in the California distribution business contributing $7,083,180 for the 3 months ended December 31, 2022.

Cost of revenue increased from $28,294,552 to $32,456,573 or 15% for the six months ended December 31, 2022, compared to the same period in 2021. The increase in cost of revenue over this period is largely attributable to the growth in the California distribution business contributing $12,209,138 for the 3 months ended December 31, 2022.

Gross Profit

Six months ended December 31, 2022				Three months ended December 31, 2022			
2022	2021	Change		2022	2021	Change	
$	$	$	%	$	$	$	%
5,552,447	6,610,364	(1,057,917)	-16%	3,355,560	2,423,457	932,103	38%

Gross profit increased from $2,423,457 to $3,355,559 or 38% for the three months ended December 31, 2022, compared to the equivalent period in the prior year. Gross margin increase is largely attributable to the revenue growth and inventory impairment in the PY of $0.84 million.

Gross profit decreased from $6,610,364 to $5,552,446 or -16% for the six months ended December 31, 2022, compared to the equivalent period in the prior year. Gross margin decrease is largely attributable to portfolio mix driven by lower margin structure in the California distribution business as part of our strategy to acquire customers and market share.

Operating Expenses Summary

	Six months ended December 31, 2022				Three months ended December 31, 2022			
	2022	2021	Change		2022	2021	Change	
	$	$	$	%	$	$	$	%
General and administrative	4,387,433	2,887,838	1,499,595	52%	2,740,138	1,455,377	1,284,762	88%
Sales and marketing	1,407,981	675,981	732,000	108%	509,108	320,440	188,668	59%
Salaries and wages	8,461,035	6,618,759	1,842,276	28%	4,291,989	3,206,077	1,085,912	34%
Operations and customer support	2,093,979	495,439	1,598,540	323%	596,363	211,052	385,311	183%
Depreciation and amortization	462,692	519,200	(56,508)	-11%	257,374	258,694	(1,320)	-1%
Share-based payments	508,000	888,217	(380,217)	-43%	200,791	392,293	(191,502)	-49%
Restructuring Charge	566,420	720,995	(154,575)	-21%	399,719	720,995	(321,277)	-45%
Impairment of assets								
Total operating expenses	17,887,540	12,806,429	5,081,111	40%	8,995,482	6,564,928	2,430,554	37%

Operating expenses increased from $6,564,928 to $8,995,482 for the three months ended December 31, 2022 compared to the equivalent period in the prior year. The increase is primarily driven by the inclusion of California distribution business, partially offset by savings in amortization costs and share-based payments. As a percentage of revenues, total operating expenses increased from 39% to 46% during the three months ended December 31, 2021 and December 31, 2022, respectively. This increase is largely due to the inclusion of the California distribution business. All other units saw a decrease in operating expenses of $1,963,394 or 30% for the three months ending December 31, 2022, compared to the prior year.

Operating expenses increased from $12,806,429, to $17,887,540 for the six months ended December 31, 2022, compared to the equivalent period in the prior year. The increase is primarily driven by the inclusion of California distribution business, partially offset by savings in amortization costs and share-based payments. As a percentage of revenues, total operating expenses increased from 37% to 47% during the six months ended December 31, 2021 and December 31, 2022, respectively. This increase is largely due to the inclusion of the California distribution business. California Cannabis represents 48% of the total operating expense. All other units saw a decrease in operating expenses of $3,466,207 or 27% for the six months ending December 31 2022, compared to the prior year. We continue to focus our efforts to drive a more effective and efficient operating model with a focus on margin enhancing opportunities.

General and Administrative Expenses

Six months ended December 31, 2022				Three months ended December 31, 2022			
2022	2021	Change		2022	2021	Change	
$	$	$	%	$	$	$	%
4,387,433	2,887,838	1,499,595	52%	2,740,138	1,455,377	1,284,762	88%

General and administrative expenses increased by $1,284,762 or 88% for the three months ended December 31, 2022 from $1,455,377 to $2,740,138 compared to the same quarter in 2021. This increase is significantly driven by the California Cannabis distribution business support and grow partner brands, $0.6 million is directly related to new partnership with Cookies.

General and administrative expenses increased by $1,499,595, or 52% for the six months ended December 31, 2022 from $2,887,838 to $4,387,433 compared to the same quarter in 2021.

This increase is driven by the California Cannabis distribution business and expenses the Company incurs the ongoing costs of compliance associated with being a public Company, including accounting and legal expenses, as well because of the U.S. expansion strategy.

Sales and Marketing Expenses

Six months ended December 31, 2022				Three months ended December 31, 2022			
2022	2021	Change		2022	2021	Change	
$	$	$	%	$	$	$	%
1,407,981	675,981	732,000	108%	509,108	320,440	188,668	59%

Sales and marketing costs decreased by $389,765 or 44 % compared to the prior quarter.

Sales and marketing costs increased by $732,000 or 108 % for the six months ended December 31, 2022 compared to the equivalent period in the prior year. The year over year increase is directly attributable to the California expansion, with $806,590 invested within the previous two quarter to support our brand portfolio and win market share. As the Company continues to grow, Humble expects sales and marketing expenses to increase, while these expenses may fluctuate from year to year, consistent with profitability objectives and relative to overall growth.

Salaries and Wages

Six months ended December 31, 2022				Three months ended December 31, 2022			
2022	2021	Change		2022	2021	Change	
$	$	$	%	$	$	$	%
8,461,035	6,618,759	1,842,276	28%	4,291,989	3,206,077	1,085,912	34%

Salaries and wages represent the largest segment of operating expense for Humble and totaled $4,291,989 for the three months ended December 31, 2022, compared to $3,206,077 over the same period in the prior year. For the six months ended December 31, 2022 salaries and wages increased by $1.8 million when compared to the prior year. The increase in salaries and wages is attributable to the California expansion with $3.5 million and $1.9 million of cost attributable to the California business for the six and three month periods respectively. Excluding California salary and wages have decreased by $1.7 million and $0.9 million respectively. This savings is driven by the Canadian and American accessories business with $2.2 million reduction year over year for the six months ended December 31, 2022.

Operations and Customer Support Expenses

Six months ended December 31, 2022				Three months ended December 31, 2022			
2022	2021	Change		2022	2021	Change	
$	$	$	%	$	$	$	%
2,093,979	495,439	1,598,540	323%	596,363	211,052	385,311	183%

Operations and customer support increased by $385,311 or 183% for the three months ended December 31, 2022, compared to the equivalent period in the prior year. The increase to operations and customer support is attributable the California expansion with $497, 420 of cost attributable to the California business.

Operations and customer support increased by $1,598,540 or 323% for the six months ended December 31, 2022, compared to the equivalent period in the prior year. The increase to operations and customer support is attributable the California expansion with $1,897,574 of cost attributable to the California business. $1.3 million is specifically related to a time cost to acquiring new brand.

Depreciation and Amortization Expense

Six months ended December 31, 2022				Three months ended December 31, 2022			
2022	2021	Change		2022	2021	Change	
$	$	$	%	$	$	$	%
462,692	519,200	(56,508)	-11%	257,374	258,694	(1,320)	-1%

Depreciation and amortization decreased by $1,320 or 1% for the three months ended December 31, 2022, compared to the equivalent period in the prior year.

Depreciation and amortization decreased by $56,508 or 11% for the six months ended December 31, 2022, compared to the equivalent period in the prior year. The decrease is primarily due to disposal of right of use assets in lieu of the Company's restructuring efforts with the closure of the warehouses in Florida and Nevada, along with office sites in Ontario.

Share-based Payments

Six months ended December 31, 2022				Three months ended December 31, 2022			
2022	2021	Change		2022	2021	Change	
$	$	$	%	$	$	$	%
508,000	888,217	(380,217)	-43%	200,791	392,293	(191,502)	-49%

Share based compensation decreased from $392,293 to $200,791 or -49% for the three months ended December 31, 2022 compared to the same period in the prior year. Share based compensation decreased from $888,217 to $508,000 or -43% for the six months ended December 31, 2022 compared to the same period in the prior year. Share based compensation is directly attributable to the organizations establishment of an employee share program (ESOP) and granting of options and RSUs related to new corporate staff.

Restructuring Charge

Six months ended December 31, 2022				Three months ended December 31, 2022			
2022	2021	Change		2022	2021	Change	
$	$	$	%	$	$	$	%
566,420	720,995	(154,575)	-21%	399,719	720,995	(321,277)	-80%

The Company was engaged in restructuring efforts during the period. The restructuring charge was driven primarily by the closure of the Nevada warehouse and right sizing the accessories headcount. Like the prior quarters, the objective of the restructuring is to right size our cost structure & improve the overall P&L health.

Non-operating Items Summary

	Six months ended December 31, 2022				Three months ended December 31, 2022			
	2022	2021	Change		2022	2021	Change	
	$	$	$	%	$	$	$	%
Finance expense (income)	298,950	131,715	167,235	127%	185,263	68,832	116,431	169%
Other (income) expenses	(70,664)	110,933	(181,597)	-164%	(39,507)	113,206	(152,713)	-135%
Foreign exchange (gain) loss	(1,383,607)	(573,884)	(809,723)	141%	971,864	(136,724)	1,108,588	-811%
Total Non-operating Items	(1,155,321)	(331,236)	(824,085)	249%	1,117,620	45,314	1,072,306	2366%

Finance Expense

Finance expenses increased from $68,832 to $185,263 or 169 % for the three months ended December 31, 2022 compared to the same period in the prior year. This is driven by carrying cost of the debt and the lease of the California warehouse that were not in the previous year. The net impact of these two additions are $95,813.

Finance expenses increased from $131,715 to $298,950 or 127 % for the six months ended December 31, 2022 compared to the same period in the prior year. This is driven by carrying cost of the debt and the lease of the California warehouse that were not in the previous year. The net impact of these two additions are $146,406.

Other Expenses (income)

Other expenses (income) increased from $113,206 to ($39,507) for the three months ended December 31, 2022 compared to the same period in the prior year

Other expenses (income) increased from $110,993 to ($70,664) for the six months ended December 31, 2022 compared to the same period in the prior year. The change in other expenses (income) was primarily due to the sale of fixed assets from the closure of the Nevada warehouse.

Foreign Exchange Loss (gain)

Foreign exchange loss (gain) fluctuates depending on the strength of the U.S. dollar relative to the Canadian dollar and its impact on cash balances held in U.S. dollars. Humble saw a decrease in foreign exchange gain from ($136,724) to a loss of $971,864 for the three months ended December 31, 2022, compared to the same period in the prior year.

Net Losses

Net losses increased from $4,151,930 on December 31, 2021 to $6,757,860 for the three months ended December 31, 2022. This quarter saw a quarter over quarter increase in net loss of $2,335,312, primarily driven by the foreign exchange loss and investing in the California cannabis distribution business as we build out the partner brands.

Net losses increased from $5,819,703 on December 31, 2021 to $11,179,772 for the six months ended December 31, 2022.

Selected Information

Total Assets

December 31, 2022 and June 30, 2022

The total assets increased from $36,456,343 to $38,406,632 as of December 31, 2022 compared to June 30, 2022. Cash balance decreased quarter-over-quarter from $5,411,344 to 3,608,015. Accounts receivable increased quarter-over-quarter from $10,500,482 to $10,749,953. Prepaid expenses decreased quarter-over-quarter from $5,034,402 to $4,372,819. Inventory carrying amount decreased quarter-over-quarter from $13,685,533 to $12,740,465. Management expects to realize a continued optimization of its inventory levels resulting in improved working capital demands.

Total Long-term Liabilities

December 31, 2022 and June 30, 2022

Total liabilities increased from $9,955,375 to $14,739,769 as of December 31, 2022 compared to the June 30, 2022. The increase was largely due to an increase in lease liability and loan payable.

Liquidity, Capital Resources and Financing

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 secure additional debt.

The new management team has a focus on improving the cash flow of the business. They are using all available leavers to deliver this goal including but not limited to; working capital improvements, issuing additional equity or securing additional debt.

Working Capital

Humble's primary source of cash flow is revenue from operations, and equity capital raises. The Company's approach to managing liquidity is to ensure, to the extent possible, that it always has sufficient liquidity to meet all liabilities as they become due. The Company continuously monitors cash flow and performs budget-to-actual analysis on a regular basis.

The Company is directing focus on the continued reduction of current inventory and accounts receivable to deliver additional working capital to the business. We are also exploring other opportunities to deliver additional working capital to the business.

Working capital surplus as of December 31, 2022 was $21,826,669 equivalent to the net current assets of the Company. This is a decrease of $1,910,077 compared to the balance as of June 30, 2022. Humble continues to optimize its working capital position by way of an efficient procurement in meeting customer fulfillment demands.

Cash and Cash equivalents

	Six months ended December 31,	
	2022	2021
	$	$
	6,304,547	9,654,551
Net cash provided by (used in):		
Operating activities	(10,897,898)	(4,084,768)
Investing activities	(1,355,111)	(19,128)
Financing activities	9,463,829	8,900,028
Effect of foreign exchange on cash and cash equivalents	92,648	(173,622)
Net increase (decrease) in cash and cash	(2,696,532)	4,622,510

Cash Flows Used in/from Operating Activities

The cash flows used in operating activities for the six months ended December 31, 2022 increased from $4,084,768 to $10,897,898 when compared to the same period in the prior year. The increase in the cash flows used in operating activities is primarily due to the increase in the accounts receivable and prepaid expense balances.

Cash Flows Used in/from Investing Activities

The cash flows used in investing activities for the six months ended December 31, 2022 increased from $19,128 to $1,355,111 compared to the equivalent period in the prior year. The cash flow from investing activities increased primarily due to an increase in purchases of property plant & equipment, acquisition of certain intangible assets at Cabo and a loan advance to a related party.

Cash Flows Used in/from Financing Activities

The cash flows from financing activities for the six months ended December 31, 2022 increased from $(8,900,028) to

$(9,463,829) compared to the equivalent period in the prior year. The increase in cash flows from financing activities is largely due to Humble's non-controlling interest relating to the California entity of $7,866,000 and a loan payable advance of $1,937,886.

Contractual Obligations

We have contractual obligations with a variety of expiration dates. The table below outlines all contractual obligations as at December 31, 2022:

	Carrying amount	Contractual cash flow	2023	2024	2025	2026	2027	Thereafter
Lease liability	$ 3,201,785	$ 5,069,048	$ 775,766	$ 793,969	$ 812,784	$ 832,232	$ 777,947	$ 1,076,349
Loan payable	1,952,877	2,400,000	200,000	2,200,000	-	-	-	-
Trade and other payable	9,585,107	9,585,107	9,585,107	-	-	-	-	-
Total	$ 14,739,769	$ 17,054,155	$ 10,560,873	$ 2,993,969	$ 812,784	$ 832,232	$ 777,947	$ 1,076,349

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as of December 31, 2022 other than operating leases disclosed above under "Contractual Obligations". From time to time, Humble may be contingently liable with respect to litigation and claims that arise in the normal course of operations.

Related Party Transaction

The Company has no related party transactions, other than those noted in the consolidated financial statements, which are summarized below.

Each of the following related parties are related because of common control across all entities. Each balance is a loan between each party with no interest and no specified terms of repayment.

	December 31, 2022	June 30, 2022
Due from Shareholders	$ 330,562	$ 327,958
Due from related parties	**$ 330,562**	**$ 327,958**

Key management includes the Company's directors and members of the executive management team. Total compensation of key management personnel and directors was $634,271 for the six months ended December 31, 2022 (2021 – $1,321,602), which included $426,853 of salaries (2021 – $773,638) and $207,418 (2021 – $547,964) 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 six months ended December 31, 2022, the Company paid $nil in rent and common area charges (2021 – $176,768). As of February 2022 the premises were no longer owned by a related party.

During the six months ended December 31, 2022, the Company purchased $nil (2021 – $395,837) 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 six months ended December 31, 2022, the Company purchased $nil (2021 – $365,545) of these services, of which $nil (2021 – $29,243) of these services are purchased from the entity that the related party has a minor stake.

Financial Instruments and Other Instruments

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

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

The Company's cash subjects the Company to credit risk. On December 31, 2022, the Company had cash of approximately $3.6 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 72% of the cash is held with either a major Canadian trust Company or a large international bank which the Company believes lessens the degree of credit risk.

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

The Company has no customers comprising more than 10% of trade receivables at December 31, 2022 and three customers comprising 6% of trade receivables at December 31, 2022.

At December 31, 2022 and 2021 the Company does not consider any of its financial assets to be impaired, with the exception of accounts receivable balances and other assets as described in Note 5 for which a provision has been recorded.

At December 31, 2022, $6,238,735 (June 30, 2022– $3,104,724) of accounts receivable was past due based on contractual terms but not impaired.

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

	December 31, 2022	June 30, 2022
	Gross	Gross
Not past due	$ 5,211,395	$ 3,792,826
Past due 1-30 days	3,000,469	825,210
Past due 31-90 days	2,087,257	770,682
Past due 90+ days	1,151,009	1,492,384
	$ 11,450,130	$ 6,881,102

Past due	0 days	1-30 days	31-90 days	90+ days	Total
ECL rate	0.27%	0.32%	5.74%	48.37%	
ECL Allowance	$ 14,071	$ 9,602	$ 119,809	$ 556,696	$ 700,177

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.

Foreign Currency Exchange Risk

The Company generates sales of product in Canadian and U.S. dollars and incurs its expenses in both U.S. and Canadian dollars and is therefore exposed to risk from changes in foreign currency rates. In addition, the Company holds financial assets and liabilities in U.S. dollars that expose the Company to foreign exchange risks. The Company has a self-sustaining operation in the U.S. with 68% (2021 – 47%) 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 December 31, 2022, the Company had U.S. dollar denominated cash of approximately US$1,987,000 (2021 – US$ 1,314,000) and U.S. dollar denominated net assets of approximately US$12,765,000 (2021 – US$ 3,038,000). 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 December 31, 2022, would have increased the foreign exchange gain for the year by approximately $638,000 (2021 – $152,000) 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.

Critical Accounting Policy Estimates

Refer to the audited consolidated financial statements for a full discussion of Humble's critical accounting policies and estimates.

Authorized Share Capital

Humble is currently authorized to issue an unlimited number of common shares. As of the date hereof, 124,168,058 common shares are issued and outstanding.

The Company's outstanding capital was as follows as at the date of this MD&A:

	Number of shares
Share Capital	124,168,058
Stock Options	6,969,000

Risk Factors

The Company's overall performance and results of operations are subject to various risks and uncertainties that may materially and adversely affect the business, products, financial condition, and operations and may cause actual performance, results and achievements to differ materially from those expressed or implied by forward-looking statements and forward-looking information, including, without limitation, the factors are discussed in our Filing Statement dated June 14, 2021 available under the Company's profile on www.sedar.com, which risk factors should be reviewed in detail by all readers. Risks involved with the cannabis industry as described in the sections "Forward-Looking Statements" and "Illegality of Cannabis at the U.S. Federal Level" should also be reviewed in detail by all readers.

Definition of Non-IFRS Measures

Non-IFRS measures do not have a standardized meaning within IFRS and are therefore unlikely to be comparable to additional measures presented by other issuers. In commentary and tables within this document IFRS measures are presented along with non-IFRS measures. Where non-IFRS measures are used, there is a reconciliation to IFRS amounts provided. Any changes in the definition of non-IFRS are disclosed and quantified.

Adjusted EBITDA

Adjusted EBITDA is used by management as a supplemental measure to review and assess operating performance and trends on a comparable basis. The Company defines Adjusted EBITDA as net loss excluding taxes (if applicable), loss on change in fair value of derivative liabilities relating to convertible debentures, net finance expense, depreciation, loss on disposal of assets, share based compensation and transaction related expenses. Management believes that

these adjustments are appropriate in making Adjusted EBITDA an approximation of cash- based earnings from operations before capital replacement, financing, and income tax charges. Adjusted EBITDA does not have a standardized meaning under IFRS and is not a measure of operating income, operating performance or liquidity presented in accordance with IFRS and is subject to important limitations. The Company's definition of Adjusted EBITDA may be different than similarly titled measures used by other companies.

Reconciliation of IFRS loss (gain) to adjusted EBITDA

Humble & Fume uses Adjusted EBITDA to appraise performance removing the impacts and volatility of non-cash adjustments. Adjusted EBITDA is defined as the net and comprehensive income (loss) for the period, as reported, adjusted for depreciation and amortization, unrealized gains (losses), share-based compensation, financing accretion costs, taxes, and other non-cash and non-recurring items. The following table reconciles the Company's net loss and comprehensive loss, being the most directly comparable measure calculated in accordance with IFRS, to Adjusted EBITDA;

	Six months ended December 31,		**Three months ended December 31,**	
	2022	2021	2022	2021
	$	$	$	$
Net (loss) gain	(11,487,155)	(5,819,703)	(6,757,860)	(4,151,930)
Finance expense	298,950	131,715	185,263	68,832
Restructuring Charge	566,420	720,995	399,719	720,995
Depreciation and amortization	462,692	519,200	257,374	258,694
Share-based payments	508,000	888,217	200,791	392,293
Current income tax expense	307,383	(45,126)	318	(34,855)
Foreign exchange (gain) loss	(1,383,607)	(573,884)	971,864	(136,724)
Adjusted EBITDA	(10,727,317)	(4,178,586)	(4,742,531)	(2,882,695)

Adjusted EBITDA for the three months ended December 31, 2022 was $(4.7) million, compared to $(2.9) million for the same period in the prior year. For the six months ended December 31 2022 adjusted EBITDA was $(10.7) million, compared to $(4.2) million for the same period in the prior year. Changes in year-over-year adjusted EBITDA were driven primarily by, increased operating expenses related to the California Cannabis business.