October 13, 2022

Humble & Fume Inc.

(formerly Canada Iron Inc.)

Consolidated Financial Statements
Years Ended June 30, 2022 and 2021

Humble & Fume Inc.

Consolidated Financial Statements

Years Ended June 30, 2022 and 2021

(Expressed in Canadian dollars)

MNP LLP

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, 2022 and 2021, 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, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

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.

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 and will 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 identified above 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.

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

MNP LLP

Toronto, Ontario
October 13, 2022

Chartered Professional Accountants
Licensed Public Accountants

Humble & Fume Inc.
Consolidated Statements of Financial Position
(in Canadian dollars)
As at June 30, 2022 and 2021

		June 30, 2022	June 30, 2021
ASSETS			
Current Assets			
Cash		$ 6,304,547	$ 9,654,551
Accounts receivable	Note 7	6,185,061	2,718,873
Prepaid expenses and deposits	Note 8	3,784,123	2,290,440
Inventories	Note 9	15,382,483	16,750,812
Taxes recoverable	Note 22	291,037	875,242
Due from related parties	Note 16	—	382,580
		31,947,251	32,672,498
Non-current Assets			
Due from related parties	Note 16	327,958	—
Right of use assets	Note 10	1,687,369	1,758,796
Property, plant and equipment	Note 10	1,197,433	2,223,138
Intangible assets	Note 11	1,296,332	—
TOTAL ASSETS		$ 36,456,343	$ 36,654,432
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		$ 8,030,744	$ 5,250,454
Lease liability-current portion	Note 12	179,761	622,219
		8,210,505	5,872,673
Non-current Liabilities			
Lease liability-long term portion	Note 12	1,744,870	1,473,639
Total Liabilities		9,955,375	7,346,312
Shareholders' equity			
Share capital	Note 13	81,372,069	71,245,135
Contributed surplus	Note 13	10,931,053	9,966,664
Warrants	Note 13	1,649,563	1,649,563
Cumulative translation adjustment		(121,045)	256,069
Deficit		(69,398,619)	(53,809,311)
Total equity attributable to shareholders		24,433,021	29,308,120
Non-controlling interest	Note 23	2,067,947	—
Total Shareholders' Equity		26,500,968	29,308,120
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 36,456,343	$ 36,654,432

Commitments and contingencies (Note 14)
Subsequent event (Note 26)

On behalf of the Board:

/s/ Jakob Ripshtein
Director

/s/ Mark Hubler
Director

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

Humble & Fume Inc.
Consolidated Statements of Loss and Comprehensive Loss
(in Canadian dollars)
Years Ended June 30, 2022 and 2021

		2022	2021
Sale of products revenue	Note 17	$ 64,286,685	$ 71,927,887
Service revenue	Note 17	1,863,161	2,185,685
Total revenue		66,149,846	74,113,572
Cost of sale of product revenue		53,484,250	60,452,815
Gross margin		12,665,596	13,660,757
Operating Expenses			
General and administration		6,250,471	5,610,774
Sales and marketing		1,882,395	1,239,206
Salaries and wages		13,232,815	11,443,865
Operations and customer support		1,213,682	920,207
Depreciation and amortization	Note 10	849,721	1,208,316
Share based payments	Note 13	1,595,220	1,243,261
Restructuring charge	Note 24	1,336,390	—
Impairment of assets	Note 25	3,179,701	—
		29,540,395	21,665,629
Loss from operations		(16,874,799)	(8,004,872)
Other (income) expenses:			
Finance expenses	Note 18	235,970	4,472,464
Fair value adjustment	Note 15	—	(1,801,078)
Other (income) expenses		45,571	(84,846)
Listing Expense	Note 3	—	1,176,284
Foreign exchange (gain) loss		(1,014,824)	1,269,009
Total other (income) expense		(733,283)	5,031,833
Loss before provision for income taxes		(16,141,516)	(13,036,705)
Current income tax expense (recovery)	Note 22	(51,979)	(38,286)
Deferred income tax recovery	Note 22	—	—
Provision for (recovery of) income taxes		(51,979)	(38,286)
Net loss for the year		(16,089,537)	(12,998,419)
Cumulative translation adjustment		(377,114)	465,328
Comprehensive loss for the year		$ (16,466,651)	$ (12,533,091)
Comprehensive loss for the year attributable to:			
Shareholders		$ (15,966,422)	$ (12,533,091)
Non-controlling interest	Note 23	(500,229)	—
		$ (16,466,651)	$ (12,533,091)
Loss per share- basic and diluted		$(0.14)	$(0.21)
Weighted average number of common shares		116,722,797	59,115,578

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

Humble & Fume Inc.
Consolidated Statements of Changes in Shareholders' Equity
(in Canadian dollars)
Years Ended June 30, 2022 and 2021

		Share capital		Warrants	Contributed surplus	Cumulative translation adjustment	Deficit	Non-controlling interest	Total
		#	$	$	$	$	$	$	$
Balance as at June 30, 2020		56,998,112	39,121,792	2,472,924	1,003,652	(209,259)	(40,810,892)	—	1,578,217
Exercise of stock options		110,333	98,486	—	(68,486)	—	—	—	30,000
Share-based payments	**Note 13**	—	—	—	1,243,261	—	—	—	1,243,261
Shares issued on RTO transaction	**Note 3/13**	1,250,000	1,025,000	30,240	—	—	—	—	1,055,240
Shares issued on private placement	**Note 13**	10,221,000	7,376,917	1,619,323	389,802	—	—	—	9,386,042
Shares issued on conversion of debt	**Note 13/15**	35,037,008	23,353,425	—	5,376,922	—	—	—	28,730,347
Shares issued on vesting of RSUs	**Note 13**	320,851	269,515	—	(451,411)	—	—	—	(181,896)
Expiry of warrants	**Note 13**	—	—	(2,472,924)	2,472,924	—	—	—	—
Cumulative transalation on foreign operation		—	—	—	—	465,328	—	—	465,328
Net loss for the year		—	—	—	—	—	(12,998,419)	—	(12,998,419)
Balance as at June 30, 2021		**103,937,304**	**71,245,135**	**1,649,563**	**9,966,664**	**256,069**	**(53,809,311)**	**—**	**29,308,120**
Exercise of stock options		202,500	135,858	—	(77,133)	—	—	—	58,725
Share-based payments	**Note 13**	—	—	—	1,595,220	—	—	—	1,595,220
Non-controlling interest	**Note 23**	—	—	—	—	—	—	2,568,176	2,568,176
Shares issued on private placement - net of share issue costs	**Note 13**	19,267,169	9,655,007	—	—	—	—	—	9,655,007
Shares issued on vesting of RSUs	**Note 13**	650,279	441,115	—	(619,962)	—	—	—	(178,847)
Shares returned to treasury	**Note 13**	(117,370)	(105,046)	—	66,264	—	—	—	(38,782)
Cumulative transalation on foreign operation		—	—	—	—	(377,114)	—	—	(377,114)
Net loss for the year		—	—	—	—	—	(15,589,308)	(500,229)	(16,089,537)
Balance as at June 30, 2022		**123,939,882**	**81,372,069**	**1,649,563**	**10,931,053**	**(121,045)**	**(69,398,619)**	**2,067,947**	**26,500,968**

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

Humble & Fume Inc.

Consolidated Statements of Cash Flows

(in Canadian dollars)

Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from (used in) operating activities:		
Consolidated net loss for the year	$ (16,089,537)	$ (12,998,419)
Adjustments to reconcile net loss		
to net cash flows from operating activities:		
Depreciation and amortization (Note 10)	849,721	1,208,316
Credit loss (Note 7)	537,923	105,978
Provision (reversal of) obsolete inventory (Note 9)	(1,282,795)	(193,266)
Interest and accretion not paid in cash	239,821	4,489,773
Share based compensation (Note 13)	1,595,220	1,243,261
Loss on disposal of right of use assets and lease liabilities (Note 11)	106,547	—
Impairment of assets (Note 24)	3,179,701	—
Change in fair value of conversion feature	—	(1,801,078)
Listing expense – non-cash	—	1,002,404
Change in non-cash operating working capital related to operations (Note 19)	(933,141)	1,231,579
Net cash used in operating activities	(11,796,540)	(5,711,452)
Cash flows generated from (used in) investing activities		
Additions to property, plant and equipment (Note 10)	(1,078,285)	(83,327)
Additions to intangible assets	(1,296,332)	—
Cash acquired on reverse acquisition (Note 3)	—	48,056
Advances to related parties (Note 16)	54,622	122,124
Net cash provided from (used in) investing activities	(2,319,995)	86,853
Cash flows from (used in) financing activities:		
Proceeds from exercise of stock options	58,725	30,000
Issuance of common shares, net of share issue costs	9,476,160	9,386,043
Purchases of shares returned to treasury	(38,782)	—
Lease payments	(924,270)	(964,082)
Proceeds from non-controlling interest (Note 23)	2,568,176	—
Net cash provided from financing activities	11,140,009	8,451,961
Increase (decrease) in cash	(2,976,526)	2,827,362
Exchange rate changes	(373,478)	473,022
Cash, beginning of year	9,654,551	6,354,167
Cash, end of year	6,304,547	9,654,551

For the year ended June 30, 2022, the Company paid interest of $nil (June 30, 2021- $nil) and tax of $nil (June 30, 2021- $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, as well as retail sales directly to consumers. The Company's head and registered office is located at 77 King Street West Suite 700, TD North Tower, Toronto, ON M5K 1G8. The Company's U.S. head office is located at 301 Vista Ridge Dr, Kyle TX, 78640.

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

These consolidated financial statements were approved and authorized by the Board of Directors of the Company on October 13th, 2022.

Impacts of COVID-19

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

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

(in Canadian dollars)

2. Basis of presentation

2.1 Statement of compliance

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

2.2 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.

2.3 Basis of consolidation

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

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

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

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

Subsidiaries	Jurisdiction	June 30, 2022	June 30, 2021
B.O.B. Headquarters Inc. ("BOB HQ")	Manitoba	100%	100%
Fume Labs Inc. ("Fume Labs")	Ontario	100%	100%
PWF Holdco Inc.("PWF")	Delaware	100%	100%
Humble Cannabis Solutions Inc.	Ontario	100%	100%
Windship Trading, LLC ("Windship")	Texas	100%	100%
HC Solutions Holdings Inc.	Delaware	80%	N/A
HC Solutions of California LLC	Delaware	80%	N/A
Cabo Connection	California	80%	N/A

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

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

(in Canadian dollars)

3. Business Acquisitions

Canada Iron Inc.

On February 23, 2021, Canada Iron and Private Humble & Fume entered into a Letter Agreement which was subsequently amended on June 9, 2021. Pursuant to the Letter Agreement, Canada Iron indirectly acquired all of the issued and outstanding Private Humble & Fume common shares through a reverse take-over transaction as described in Note 1. The transaction was considered a reverse takeover (“RTO") as the legal acquiree’s (Private Humble & Fume) former shareholders control the consolidated entity after completion of the transaction. Consequently, the legal acquiree (Private Humble & Fume) is the accounting acquirer and the historical financial results presented in these consolidated financial statements are those of Private Humble & Fume. At the time of the amalgamation, Canada Iron’s assets consisted primarily of cash and it did not have any processes capable of generating outputs; therefore, Canada Iron did not meet the definition of a business. Accordingly, as Canada Iron did not qualify as a business in accordance with IFRS 3 Business Combinations, the transaction did not constitute a business combination; however, by analogy it has been accounted for as a reverse takeover. Therefore, Private Humble & Fume, the legal subsidiary, has been treated as the accounting acquirer, and Canada Iron, the legal parent, has been treated as the accounting acquiree. Upon completion of the amalgamation 303,257,870 Canada Iron common shares were consolidated into 1,250,000 common shares of one post-consolidated share for every 243 pre-consolidation shares. The consideration relating to the deemed shares issued in the reverse acquisition was based on the fair value of common shares of $0.82 per share. In addition, exchanged on the reverse takeover were 19,563,771 Canada Iron warrants into 84,000 post consolidation warrants which were fair valued on the acquisition date at $0.36 per warrant. The fair value of the common share and warrants was based on a reiterative Black-Scholes calculation with the following assumption: unit price $1 (as per private placement value (Note 13), volatility 90% and a risk-free rate of 0.43%. As the acquisition was not considered a business combination, the excess of consideration paid over the net assets acquired together with any transaction costs incurred for the amalgamation is expensed as a listing expense in accordance with IFRS 2 Share-Based Payments.

	June 14, 2021
Net assets of Canada Iron Inc. acquired:	**$**
Cash	48,056
Receivables	4,780
Net Assets acquired	**52,836**
Consideration paid in RTO of Canada Iron Inc:	**$**
Common shares	1,025,000
Warrants	30,240
Legal Expenses	173,880
Total Consideration Paid	**1,229,120**
Listing expense	**1,176,284**

(in Canadian dollars)

3. Business Acquisitions (continued)

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 $128,860 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.

	April 16, 2022
Net assets of Cabo Connection acquired:	**$**
Licence	902,020
Right of use asset	858,521
Total assets	1,760,541
Lease liability	858,521
Total net assets acquired	**902,020**

Consideration paid for Cabo Connection:	**$**
Cash	773,160
Common shares	128,860
Total Consideration Paid	**902,020**

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

Cash consist of cash on hand and bank balances.

4. Summary of significant accounting policies (continued)

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

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.

Licences	Indefinite

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.

4. Summary of significant accounting policies (continued)

4.4 Joint operations (continued)

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.

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. Summary of significant accounting policies (continued)

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.

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. Summary of significant accounting policies (continued)

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.

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 an 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. Summary of significant accounting policies (continued)

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.

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.

4. Summary of significant accounting policies (continued)

4.13 Financial instruments (continued)

(a) Financial assets (continued)

ii) Classification and subsequent measurement (continued)

- 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.

(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.

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.

(iv) Derecognition of financial assets

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

4. Summary of significant accounting policies (continued)

4.13 Financial instruments (continued)

(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
Taxes recoverable	Amortized cost
Due from related parties	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Lease liability	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.

4. Summary of significant accounting policies (continued)

4.14 Foreign currency transactions (continued)

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 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 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. Summary of significant accounting policies (continued)

4.17 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.

4.18 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.

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

The 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.

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.

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

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.

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.

(in Canadian dollars)

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

Provision for income taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

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 – Presentation of financial statements: classifications of liabilities as current or noncurrent

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

7. Accounts receivable

	June 30, 2022	June 30, 2021
Accounts receivable	$6,881,102	$2,876,991
Expected credit loss	(696,041)	(158,118)
	$6,185,061	$2,718,873

Expected credit loss

	June 30, 2022	June 30, 2021
Balance at beginning of the year	158,118	52,140
Provided during the year	577,551	204,449
Written off during the year as uncollectible	(39,628)	(98,471)
Balance at end of the year	696,041	158,118

During the year ended June 30, 2022, the Company provided for $566,380 of accounts receivable held in Fume Labs. See Note 25.

(in Canadian dollars)

8. Prepaid expenses and deposits

	June 30, 2022	June 30, 2021
Deposits on inventory	$ 2,567,325	$ 1,843,387
Other Prepaid Expenses	1,216,798	447,053
	$ 3,784,123	$ 2,290,440

The Company paid deposits for inventory that will be received within the next 12 months. During the year ended June 30, 2022, the Company wrote-off $61,477 of prepaid expenses and deposits held by Fume Labs. See Note 25.

9. Inventories

	June 30, 2022	June 30, 2021
Finished goods and components	$16,350,412	$19,001,536
Inventory provision	(967,929)	(2,250,724)
	$15,382,483	$16,750,812

During the year ended June 30, 2022, the Company recognized $ 48,696,039 (2021 - $58,864,772) of inventories as an expense and recorded a net (pick up) write down of inventory of ($1,282,795) (2021 - ($193,266)) to net realizable value. These expenses are included in cost of sale of product revenue on the Statements of Loss and Comprehensive Loss. The Company wrote-off $823,109 of inventory held by Fume Labs. See Note 25.

10. 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, 2020	**122,828**	**1,569,595**	**60,405**	**7,734**	**1,595,872**	**3,292,070**	**6,648,504**
Additions	49,460	–	–	–	34,059	–	83,519
Disposals	(192)	–	–	–	–	–	(192)
Currency translation	–	–	–	–	(21,544)	(72,040)	(93,584)
As at June 30, 2021	**172,096**	**1,569,595**	**60,405**	**7,734**	**1,608,387**	**3,220,030**	**6,638,247**
Additions	98,452	454,763	412,352	35,065	77,652	871,407	1,949,691
Disposals	–	–	(28,514)	–	–	(1,286,291)	(1,314,805)
Impairment	(12,715)	(1,395,397)	–	–	(1,181,655)	–	(2,589,767)
Currency translation	–	–	–	–	1,584	11,109	12,693
As at June 30, 2022	**257,833**	**628,961**	**444,243**	**42,799**	**505,968**	**2,816,255**	**4,696,059**

Accumulated Depreciation	Computer Hardware	Leasehold Improvements	Automobiles and Trailer	Computer Software	Furniture & Equipment	Right of use Asset	Total
As at June 30, 2020	**82,542**	**204,532**	**46,714**	**1,917**	**317,210**	**795,082**	**1,447,997**
Disposals	–	–	–	–	–	–	–
Depreciation	36,979	225,206	4,289	1,092	274,598	666,152	1,208,316
As at June 30, 2021	**119,521**	**429,738**	**51,003**	**3,009**	**591,808**	**1,461,234**	**2,656,313**
Disposals	–	–	(27,902)	–	–	(805,843)	(833,745)
Impairment	(8,335)	(429,937)	–	–	(422,760)	–	(861,032)
Depreciation	37,103	147,703	27,983	4,367	159,070	473,495	849,721
As at June 30, 2022	**148,289**	**147,504**	**51,084**	**7,376**	**328,118**	**1,128,886**	**1,811,257**

Net Carrying Amount	Computer Hardware	Leasehold Improvements	Automobiles and Trailer	Computer Software	Furniture & Equipment	Right of use Asset	Total
As at June 30, 2021	52,575	1,139,857	9,402	4,725	1,016,579	1,758,796	3,981,934
As at June 30, 2022	**109,544**	**481,457**	**393,159**	**35,423**	**177,850**	**1,687,369**	**2,884,802**

(in Canadian dollars)

10. Property, plant and equipment (continued)

The right of use assets relates to leased properties.

During the year ended June 30, 2022, the Company recorded an impairment on the net book value of the property, plant and equipment held in Fume Labs in the amount of $1,728,735. See Note 25.

11. Intangible assets

Cost	Licences	Total
As at June 30, 2020	–	–
Additions	–	–
Disposals	–	–
Currency translation	–	–
As at June 30, 2021	–	–
Additions	1,296,332	1,296,332
Disposals	–	–
Currency translation	–	–
As at June 30, 2022	**1,296,332**	**1,296,332**

Accumulated Depreciation	Licences	Total
As at June 30, 2020	–	–
Disposals	–	–
Depreciation	–	–
As at June 30, 2021	–	–
Disposals	–	–
Depreciation	–	–
As at June 30, 2022	–	–

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

(in Canadian dollars)

12. Lease liability

The Company leases assets, including office buildings and equipment. The lease liability as at June 30, 2022 and 2021 are as follows:

Balance, June 30, 2020	**$ 2,785,927**
Additions	**—**
Interest expense	359,853
Lease payments	(964,082)
Effects of foreign exchange	(85,840)
Balance, June 30, 2021	**$ 2,095,858**
Additions	871,407
Disposal (net)	(375,045)
Interest expense	239,821
Lease payments	(924,270)
Effects of foreign exchange	16,860
Balance, June 30, 2022	**$ 1,924,631**
Current	179,761
Non-current	1,744,870
Balance, June 30, 2022	**$ 1,924,631**

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

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

Less than one year	$ 451,238
One to two years	402,341
Two to three years	401,150
Three to four years	401,815
Four to five years	406,910
Thereafter	1,243,777
Total undiscounted lease payments payable	$ 3,307,231
Less: impact of present value	(1,382,600)
Balance, June 30, 2022	**$ 1,924,631**

(in Canadian dollars)

13. Share capital

Authorized – Unlimited number of common shares.

Issued and outstanding – common shares

The share activity for the year ended June 30, 2022 and June 30, 2021 is as follows:

	Number of shares	Share capital
Balance as at June 30, 2020	56,998,112	$39,121,792
Exercise of stock options	110,333	98,486
Shares issued on RTO transaction	1,250,000	1,025,000
Shares issued on private placement	10,221,000	7,376,917
Shares issued on conversion of debt	35,037,008	23,353,425
Shares issued on vest of RSUs	320,851	269,515
Outstanding as at June 30, 2021	**103,937,304**	**$71,245,135**
Exercise of stock options	202,500	135,858
Shares issued on private placement	19,267,169	9,655,007
Shares issued on vesting of RSUs	650,279	441,115
Shares returned to treasury and cancelled	(117,370)	(105,046)
Outstanding as at June 30, 2022	**123,939,882**	**$81,372,069**

- During the year ended June 30, 2021, employees exercised 45,000 stock options for total proceeds of $30,000. In addition, 233,333 compensation options were converted into 65,333 common shares by way of a 3.57 options to 1 share.

- Upon completion of the reverse acquisition 303,257,870 Canada Iron common shares were consolidated into 1,250,000 common shares of post-consolidated entity for every 243 pre-consolidation shares. The consideration relating to the deemed shares issued in the reverse acquisition was based on the fair value of common shares of $0.82 per share with an aggregate value of $1,025,000. A total of 19,563,771 Canada Iron warrants were also consolidated into 84,000 warrants of post-consolidated entity valued at $0.36 per warrant. The fair value of the common shares and warrants was based on an iterative Black-Scholes calculation using a $1 per unit valuation as detailed below.

- The Company entered into a private placement agreement on April 1, 2021. The funds were held in escrow and released at close of RTO with 10,221,000 units at a price of $1 per unit with gross proceeds of $10,221,000. A single unit carries one common share and one half common share purchase warrant exercisable at $1.40 per share for a period of 36 months following the release date of funds. The completion of the private placement resulted in the issuance of 10,221,000 common shares and 5,110,500 common share purchase warrants.

  The common shares and the purchase warrants were valued at $8,381,220 and $1,839,780, respectively. The common shares were valued at fair market of $0.82 per share and the purchase warrants were valued at $0.36 using Black-Scholes valuation model with the following assumptions: share price $0.82, volatility 90%, risk-free rate 0.43%, dividend yield 0%. The expected volatility was estimated using the volatility of publicly traded companies the Company considered to be comparable. The risk-free interest rate is based on the government bonds with a term equal to the expected life of the warrants.

(in Canadian dollars)

13. Share capital (continued)

The unit's issuance cost consisted of a cash issuance cost of $834,957 and a non-cash issuance cost of $389,802 on 645,200 compensation options valued at approximately $0.60 each. The compensation options were valued using Black-Scholes valuation model with the following assumptions: unit price $1, volatility 96.26%, risk-free rate 1.44%, dividend yield 0%. Each unit of compensation option carries one common share and one half common share warrant exercisable at $1.40 for a period of 36 months following the release date of funds. The fair value of the cash and non-cash issuance cost was deducted from the share capital and warrants based on the relative fair value of $1,004,303 and $220,457 respectively. For a net common share and warrant cost of $7,376,917 and $1,619,323 respectively.

- On June 14, 2021 a total of 35,037,008 common shares were issued as a result of an exercise by debenture holders to convert the total of principal and unpaid/accrued interest into common shares. The principal of $20,000,000, accrued and unpaid interest of $3,352,451 was converted at the discounted price of approximately $0.67 (see Note 15) and recorded in share capital. The fair value of $5,376,922 of the derivative liability was discharged to contributed surplus on the conversion date.

- On November 12, 2021 the Company completed a private placement subscription agreement, whereby the subscriber agrees to purchase 18,795,471 shares of the Company at $0.53 each for a total gross proceeds of $9,961,600. The agreement's issuance cost consisted of a cash issuance cost of $306,592 and a non-cash issuance cost of $292,453 on 471,698 common shares as per prevailing fair value. The fair value of the cash and non-cash issuance cost was deducted from the share capital for a net common share cost of $9,655,007 inclusive of compensation shares for a total of 19,267,169 shares issued.

- During the year ended June 30, 2022, employees exercised 202,500 stock options for total proceeds of $58,725. Previously recognized share based payments of $77,133 relating to these stock options were reallocated from contributed surplus to share capital. The weighted average share price at the date of exercise was $0.49.

- During the year ended June 30, 2022, the Company purchased and cancelled 117,370 shares for $38,782. These shares had an original share cost of $105,046. The difference of $66,264 was recorded in contributed surplus.

Warrants

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

	Number of warrants	Weighted average exercise price
Outstanding as at June 30, 2020	7,999,998	$1.25
Expired	(7,999,998)	$1.25
Issued	5,110,500	$1.40
Issued	84,000	$1.40
Outstanding as at June 30, 2021	5,194,500	$1.40
Outstanding as at June 30, 2022	5,194,500	$1.40

(in Canadian dollars)

13. Share capital (continued)

Share-based payments

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

	Weighted Average Number	Weighted Average Exercise Price (CAD)	Weighted Average Remaining Contractual Life (years)
Balance at June 30, 2020	2,257,000	$0.68	6.48
Granted	1,449,000	$1.00	9.21
Exercised	(45,000)	$0.67	-
Balance at June 30, 2021	3,661,000	$0.69	7.53
Granted	4,480,000	$0.50	9.51
Exercised	(202,500)	$0.29	-
Expired	(784,500)	$0.93	-
Balance at June 30, 2022	7,154,000	$0.67	8.59

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:

	2022	2021
Risk-free interest rate	1.44%-3.19%	1.01%-1.44%
Expected dividend yield	0%	0%
Expected volatility	96.26-102.53%	96.26%-123%
Expected option life	10 years	10 years
Share price	$0.35-$0.60	$0.82

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

The stock-based compensation expense of options was $1,281,429 (2021 – $126,714) for the year ended June 30, 2022. The number of options exercisable at June 30, 2022 was 2,781,153 (June 30, 2021 – 2,192,500).

During the year a total of 4,480,000 options were granted, these options vest over a period of 3 years from the date of grant and come with a contractual life of 10 years.

(in Canadian dollars)

13. Share capital (continued)

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

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

The following schedule summarizes options outstanding as at June 30, 2021:

Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Exercise Price	Number Exercisable
$0.29	607,500	6.76	$0.29	607,500
$0.67	202,500	6.76	$0.67	202,500
$0.67	225,000	7.01	$0.67	112,500
$0.67	450,000	7.33	$0.67	225,000
$1.00	265,000	7.60	$1.00	265,000
$1.00	300,000	7.87	$1.00	150,000
$1.00	150,000	7.84	$1.00	150,000
$2.25	12,000	0	$2.25	12,000
$0.84	45,000	9.62	$0.84	-
$1.00	1,404,000	9.96	$1.00	468,000
$0.81	3,661,000	8.28	$0.73	2,192,500

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

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

(in Canadian dollars)

13. Share capital (continued)

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, 2022, the share based payments expense was $314,730 (June 30, 2021 - $1,116,546) for the RSUs.

The RSU activity during the period is as follows:

	Number of RSUs
June 30, 2020	20,000
Granted	1,567,448
Vested	(532,320)
June 30, 2021	1,055,128
Granted	479,082
Forfeited	(10,175)
Vested	(980,027)
June 30, 2022	544,008

The following table displays the vesting for outstanding RSUs:

	Vested	Unvested	Total
June 30, 2020	—	20,000	20,000
Granted	532,320	1,035,128	1,567,448
June 30, 2021	532,320	1,055,128	1,587,448
Granted	479,082	—	479,082
Vested	500,945	(500,945)	—
Forfeited	—	(10,175)	(10,175)
June 30, 2022	1,512,347	544,008	2,056,355

Of the total 980,027 shares vested, all units were settled in shares with a total of 329,748 units withheld in lieu of tax withholdings resulting in a net share release of 650,279.

14. Commitments and contingencies

Office and Operating leases:

The Company leases certain business facilities and equipment from third parties under lease agreements that contain minimum rental provisions and expire through 2029. Some of these leases also contain renewal provisions. These lease commitments were recorded as lease liabilities under IFRS 16. Rent was also paid in situations where an agreement did not exist or were short term in nature. Such leases were excluded from IFRS 16 treatment. Rent expense is calculated on straight-line basis over the terms of the leases. The Company's net rent expense for the years ended June 30, 2022 and 2021 totaled approximately $233,910 and $139,731 respectively.

14. Commitments and contingencies (continued)

Legal matters

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

During the year ended June 30, 2022, the Company has begun legal action against a third party due to a material breach in a key agreement. On July 5th, 2022, a Notice of Arbitration was served on the third party. The outcome of this legal action is uncertain, therefore no asset has been recognized. There is no countersuit against the Company.

15. Convertible debenture

In May 2019, the Company issued a 2-year, 8% convertible debenture with a principal amount of $20,000,000. The debenture holders have the right, at any time prior to the close of business on the earliest of (i) the Business Day immediately preceding the Maturity Date of the debentures (May 10, 2021); or (ii) the Business Day immediately preceding a Liquidity Event (as defined in the debenture agreement) to convert the principal amount outstanding and accrued and unpaid interest into common shares in the capital of the Company.

On June 14th, 2021 at the point in time immediately before the completion of the RTO, the Company converted the full aggregate principal amount of its outstanding 8.0% convertible debentures issued May 10, 2019 ("Debentures"), together with all accrued and unpaid interest thereon, being $20,000,000 principal and $3,353,425 in interest, into common shares of Humble ("Humble Shares") at a price per share of approximately $0.67 resulting in the issuance of an aggregate total of 35,037,008 common shares. The conversion price was calculated to reflect a 30% discount to the $0.95 per common share or $0.67.

The conversion option created an embedded derivative which meets the definition of a financial liability as it violates fixed for fixed criteria. Accordingly, it must be bifurcated and recorded at fair value on initial recognition and at the end of each reporting period. The host contract is a financial liability that is stated at amortized cost using the effective interest method.

The Company estimated the fair value of the derivative liability prior to conversion to be $5,376,922 and ($7,178,000 - June 30, 2020). The fair value of the conversion feature was determined to be the difference between the fair value of the Humble share price of $0.82 and the conversion price of $0.67 extrapolated by the number of Humble shares received by the debenture holders.

The amortized cost of the host contract and accrued interest as at June 30, 2021 is nil (June 30, 2020- $17,399,943). The accrued interest payable as at June 30, 2021 is nil and $1,823,562 on June 30, 2020. The loan was accreted using an effective interest rate of 25.03%. The fair value adjustment to the derivative liability on June 30, 2021 resulted in a fair value gain of $1,801,078 and a fair value loss of $3,162,000 on June 30, 2020.

(in Canadian dollars)

15. Convertible debenture (continued)

Interest and accretion expense on the convertible note for the year ended June 30, 2021 of $1,531,202 and $2,600,057 respectively (2020- $1,600,000 and $2,386,112) respectively. The convertible debenture and derivative liability are valued as Level 3 financial instruments (see Note 21).

$603,000 of principal amount of the convertible debentures were held by related parties and were converted to shares as per Note 13.

16. Due to related parties and related party transactions

a) Due from Related Parties

Each of the following related parties are related because of common control across all entities. The Due from Shareholders includes a Promissory Note for $325,000 (2021- $375,000) due from one shareholder. $50,000 of the principal amount was forgiven and the balance of 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%.

	June 30, 2022	June 30, 2021
Due from Shareholders	327,958	382,580
Due from related parties	$ 327,958	$ 382,580

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 $2,212,493 for the year ended June 30, 2022 (2021-$803,605), which included $1,088,178 of salaries (2021-$789,877) and $1,124,315 (2021-$13,728) in stock-based compensation expense. The total compensation included termination payments and stock-based compensation to one member of the executive management team and director of $278,846.

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. The Company paid $224,403 in rent and common area charges (2021-$267,568). As of February 2022 the premises were no longer owned by a related party.

On November 31, 2021, a member of the Board of Directors was granted 2,000,000 stock options. The options vest over 3 years and have a 10 year expiry and were issued at an exercise price of $0.50 per share. On March 7, 2022, a member of the executive was granted 250,000 stock options. The options vest over 3 years and have a 10 year expiry and were issued at an exercise price of $0.40 per share. The fair value of both grants are included in the stock-based compensation amount in the Consolidated Statements of Loss and Comprehensive Loss.

During the year, the Company purchased $379,000 ($1,241,165 – 2021) 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. The Company purchased $366,000 ($1,269,000- 2021) of these services, of which $29,000 ($101,000 – 2021) of these services are purchased from the entity that the related party has a minor stake.

(in Canadian dollars)

17. Geographical information

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

	June 30, 2022	June 30, 2021
Revenue		
Canada	$ 28,688,440	$ 28,401,319
USA	37,461,406	45,712,253
Total	$ 66,149,846	$ 74,113,572

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

	June 30, 2022	June 30, 2021
Non-current Assets		
Canada	$ 971,215	$ 3,417,473
USA	3,209,918	564,461
Total	$ 4,181,133	$ 3,981,934

18. Finance (income) expense

	June 30, 2022	June 30, 2021
Interest income	$ (17,728)	$ (26,105)
Interest expense	253,698	1,898,512
Accretion	—	2,600,057
Net finance expense	$ 235,970	$ 4,472,464

Interest income includes interest on interest bearing bank account of $11,782 (2021 – $9,732), service charge income on delinquent customer accounts of nil (2021 – $8,793) and interest income on promissory note to related party of $5,976 (2021 – $7,580).

A $20,000,000 Convertible Debenture was converted in the year ended June 30, 2021 resulting in nil interest expense (2021 – $1,531,202) and nil accretion (2021 – $2,600,057) respectively. The interest expense also includes interest on lease liability of $228,249 (2021 – $368,649).

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

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

	June 30, 2022	June 30, 2021
Accounts receivable	$ (4,570,491)	$ (500,490)
Prepaid expenses and deposits	(1,555,160)	88,934
Inventories	1,828,015	(896,741)
Accounts payable and accrued liabilities	2,780,290	2,059,463
Taxes recoverable	584,205	480,413
	$ (933,141)	$ 1,231,579

(in Canadian dollars)

20. Management of capital

The Company's objectives when managing capital are:

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

The company defines capital as the aggregate of equity.

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

21. Financial instruments

Financial instruments measured at fair value are classified into one of levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data. The derivative liability is valued at fair market value.

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

	As of June 30, 2021			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	9,654,551	—	—	9,654,551

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

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

21. Financial instruments (continued)

a) Market risk:

i. Credit risk:

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

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

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

The Company's cash subjects the Company to credit risk. At June 30, 2022, the Company had cash of approximately $6.3 million held with a number of financial institutions in various bank accounts as per its practice of protecting its capital rather than maximizing investment yield through additional risk. Approximately 97% of the cash is held with either a major Canadian trust company or a large international bank which the Company believes lessens the degree of credit risk.

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

The Company has one customer comprising 13% of trade receivables at June 30, 2022 and one customer over the 10% threshold for 2021.

At June 30, 2022 and 2021 the Company does not consider any of its financial assets to be impaired, with the exception of accounts receivable balances and other assets as described in Note 10 for which a provision has been recorded.

At June 30, 2022, $2,406,058 (2021 – $1,212,194) of accounts receivable was past due based on contractual terms but not impaired.

21. Financial instruments (continued)

ii. Credit risk: (continued)

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:

	June 30, 2022	June 30, 2021
	Gross	Gross
Not past due	$ 3,792,826	$ 1,664,797
Past due 1-30 days	825,210	849,700
Past due 31-90 days	770,682	47,180
Past due 90+ days	1,492,384	315,314
	$ 6,881,102	$ 2,876,991

Past Due	0 days	1-30 days	31-90	90+	Total
ECL rate	0.36%	0.94%	14.03%	37.95%	
ECL Allowance	$13,823	$7,745	$108,093	$566,380	$696,041

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

iii. Interest rate risk:

The Company does not have any interest rate risk as it did not have any borrowings at June 30, 2022.

iv. Foreign currency risk:

The Company generates sales of product in Canadian and U.S. dollars and incurs its expenses in both U.S. and Canadian dollars and is therefore exposed to risk from changes in foreign currency rates. In addition, the Company holds financial assets and liabilities in U.S. dollars that expose the Company to foreign exchange risks. The Company has a self-sustaining operation in the U.S. with 57% (62%-2021) 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, 2022, the Company had U.S. dollar denominated cash of approximately US$ 3,356,444 (2021: $586,316) and U.S. dollar denominated net assets of approximately US$13,326,415 (2021- $5,527,543). 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, 2022, would have increased the foreign exchange gain for the year by approximately $666,000 (2021: $276,000) 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.

(in Canadian dollars)

21. Financial instruments (continued)

b) Liquidity risk:

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

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

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

	Carrying amount	Contractual cash flow	2023	2024	2025	2026	2027	Thereafter
Lease liability	$1,924,631	$3,307,231	$ 451,238	$402,341	$401,150	$401,815	$406,910	$1,243,777
Trade and other payable	8,030,744	8,030,744	8,030,744	-	-	-	-	-
Total	$ 9,955,375	$11,337,975	$8,481,982	$402,341	$401,150	$401,815	$406,910	$1,243,777

22. Income taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2021 – 26.5%) to the effective tax rate is as follows:

		2022		2021
Net loss before recovery of income taxes	**$**	**(16,141,516)**	$	(13,036,705)
Expected income tax (recovery) expense	**$**	**(4,277,500)**	$	(3,454,730)
Tax rate changes and other adjustments		**144,230**		98,630
Non-deductible expenses		**346,891**		—
Share issuance costs through equity		**(161,740)**		(105,250)
Stock based compensation		**41,930**		323,880
Listing Expense		—		265,640
Change in tax benefits not recognized		**3,854,210**		2,833,544
Income tax (recovery)	**$**	**(51,979)**	$	(38,286)
The Company's income tax (recovery) is allocated as follows				
Current tax recovery		**(51,979)**		(38,286)
Deferred tax recovery		—		—
	$	**(51,979)**	$	(38,286)

(in Canadian dollars)

22. Income taxes (continued)

Deferred tax

The following table summarizes the components of deferred tax:

		2022		2021
Deferred Tax Assets				
Lease liability	$	456,720	$	457,590
Operating losses carried forward - Canada		37,110		364,270
Operating losses carried forward - USA		1,920		9,490
Subtotal of Assets	$	495,750	$	831,350

		2022		2021
Deferred Tax Liabilities				
Property, plant and equipment	$	(12,700)	$	(373,760)
Right of use assets		(458,640)		(457,590)
Loan receivable		(24,410)		—
Subtotal of Liabilities	$	(495,750)	$	(831,350)
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:

		2022		2021
Property, plant and equipment	$	625,250	$	76,660
Intangible assets		411,410		411,410
Lease liability		244,240		338,740
Inventory		492,050		515,030
Loan receivable		302,320		—
Other		10,680		10,680
Share issuance costs		1,626,520		1,735,110
Reserves		1,580,630		158,120
Operating losses carried forward – Canada		14,834,890		10,441,640
Operating losses carried forward - USA		19,208,260		10,485,310
Charitable donations carried forward		3,030		3,030
Total	**$**	**39,339,280**	**$**	**24,175,730**

(in Canadian dollars)

22. Income taxes (continued)

The Canadian operating loss carry forwards expire as noted in the table below.

The U.S. losses of $19,208,256 (2021 - $10,485,310) are carried forward indefinitely.
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 Canadian operating losses expire as follows:

2039	$	30,952
2040		4,478,459
2041		6,074,279
2042		4,251,203

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.

23. Non-controlling interest

The Company holds an 80% interest in HC Solutions Holdings Inc., HC Solutions of California LLC and Cabo Connection, and the remaining 20% represents the non-controlling interest.

The change in non-controlling interests is as follows:

		2022		2021
Balance, beginning of year	$	—	$	—
Non-controlling interest contributions		2,568,176		—
Share of comprehensive loss for the year		(500,229)		—
Balance, end of year	$	2,067,947	$	—

24. Restructuring charge

Restructuring charge includes amounts relating to severance pay, lease termination fees and warehouse closure costs. Included in accounts payable and accrued liabilities are $114,025 (2021 - $nil) of accrued severance pay.

(in Canadian dollars)

25. Impairment of assets

In November 2021, a third-party contractual counterparty announced the closure of the facility in which Fume Labs performed the extraction of cannabis distillate, filling, packaging and sale of cannabis vaporizer cartridges. The Company depended on the third party in being able to conduct cannabis extraction and processing services under the third party's cannabis processing license. As a result, the Company has terminated the agreement with the third party and began legal action. Without access to a facility and a cannabis processing licence, 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 the third party. As a result, the Company recognized the below impairment and allowances to the assets held in Fume Labs:

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

26. Subsequent event

On September 8, 2022, the Company entered into an exclusive sales and distribution agreement in California with Cookies, an industry leading cannabis brand. The Company has committed to contributing US$2 million to Cookies relating to Brand Investment in the 12 months following the agreement date.

On September 9, 2022, the Company obtained a $2,000,000 secured revolving credit facility. In connection with the credit facility, the Company issued 750,000 warrants, with each warrant exercisable to purchase a common share of the Company at a price of $0.25 per share for a period of three years.

On September 13, 2022, Green Acre Capital Distribution Corp. ("Green Acre") invested an additional US$6 million into HC Solutions Holdings Inc. This additional investment will increase its ownership interest in HC Solutions Holdings Inc. from 20% to 45%. Green Acre contributed US$2 million (CAD$2,568,176) for its initial 20% of HC Solutions Holdings Inc. (see Note 23).