



Humble & Fume Inc.

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

Three Months Ended
September 30, 2021 and 2020

Humble & Fume Inc.
Management's Discussion & Analysis of Financial Condition and Results of Operations
For the three months ended September 30, 2021

Management's Discussion and Analysis

This management discussion and analysis of the financial condition and results of operations ("MD&A") of Humble & Fume Inc. (the "Company" or "H&F" or "Humble"), is for the fiscal period ended September 30, 2021 and 2020. This MD&A should be read in conjunction with the interim condensed consolidated financial statements and the notes thereto for the three months ended September 30, 2021 and 2020. The three months ended interim condensed consolidated financial statements and this MD&A have been reviewed by the Company's Audit Committee and approved by the Company's Board of Directors on November 24, 2021.

This MD&A provides information that the management of the Company believes is important to assess and understand the results of operations and financial conditions of the Company. All amounts are presented in Canadian dollars, unless otherwise noted. The Company's condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

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

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

Forward-Looking Statements

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

The global pandemic related to an outbreak of the novel coronavirus disease ("COVID-19") has cast uncertainty on many of the Company's assumptions and estimates. There can be no assurance that such assumptions and estimates continue to be valid. Given the rapid pace of change in the severity of and response to the COVID-19 outbreak, it is premature for the Company make further assumptions or estimates. The situation is dynamic and the ultimate duration and magnitude of the impact of COVID-19 on the economy and the financial effect on the business is not known at this time. These impacts could include, amongst others, an impact on the Company's ability to obtain debt or equity financing, increased credit risk on receivables, impairment of investments, impairments in the value of long-lived assets, or potential future decreases in revenue or profitability of ongoing operations. See "Risk Factors".

Non-IFRS Measures and Reconciliation of Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures including key performance indicators used by management and typically used by the Company's competitors. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore not necessarily comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of Humble's results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of the financial information reported under IFRS. These non-IFRS measures are used to provide investors with supplemental measures

of the operating performance and liquidity and thus highlight trends in the business that may not otherwise be apparent when relying solely on IFRS measures. The Company also believe that securities analysts, investors, and other interested parties frequently use non-IFRS measures, industry metrics, in the evaluation of companies in the Cannabis industry. Management also uses non-IFRS measures and industry metrics to facilitate operating performance comparisons from period to period, the preparation of annual operating budgets and forecasts and to determine components of executive compensation. The non-IFRS measures and industry metrics referred to in this MD&A include “Adjusted EBITDA” and “Free Cash Flow”.

Humble & Fume Inc. Business Overview

Humble & Fume Inc. is the leading North American distributor of cannabis and cannabis accessories, supported by a customer-centric sales team, world-class infrastructure, and manufacturing facilities. As the only fully-integrated cannabis distribution solution, Humble bridges the gap for retailers, Canadian licensed producers, American multi-state operators, and cannabis customers increasing sales penetration to maximize financial performance. With over 20 years of North American operating experience, Humble has cultivated extensive vendor and customer relationships distributing premium cannabis consumables and consumption devices. The Company is comprised of four subsidiaries that represent its vertical integration across North America with over 200 supporting staff. Humble operates its business through its wholly-owned subsidiaries, B.O.B. Headquarters Inc. (“BobHQ”), Windship Trading LLC (“Windship”), Humble+ Cannabis Solutions (“HCS”) and Fume Labs Inc. (“Fume Labs”).

Humble’s Wholly Owned Operating Subsidiaries & Brands



B.O.B. Headquarters Inc., including the brand Humble+Fume

BobHQ, with the brand Humble+Fume, operates as a distributor of cannabis consumption devices for headshops, smoke shops, and licensed cannabis stores across Canada. With one of the largest portfolio offerings of smoking accessories in Canada, including grinders, papers, pipes, vaporizers, and cleaning products, BobHQ/Humble+Fume is the distribution partner of choice by retailers. BobHQ distribution operations are strategically located in Brandon, Manitoba allowing for efficient distribution to customers coast-to-coast. A key strength to Canadian distribution operations is the high-quality brand portfolio, represent premium cannabis accessory brands such as RYOT, Storz & Bickel, OCB, GRAV, Pulsar, and BIC. Over the last 20 years, BobHQ has built an extensive network of suppliers and customers, making them the leading choice for cannabis accessories in Canada.

Windship Trading LLC

Windship has grown to become one of the leading distributors of cannabis consumption devices for headshops and smoke shops in the United States (“U.S.”). Since 2010, Windship has serviced thousands of smoke shop retailers, sub-distributors, e-commerce companies, CBD retailers and currently offers over 8,000 products in their portfolio, including grinders, papers, pipes, vaporizers, and cleaning products. Windship has active operations in San Marcos, Texas, St. Petersburg, Florida, Denver, Colorado, Las Vegas, Nevada and Los Angeles, California, with international distribution capabilities as well. Windship’s strategically located sales and distribution facilities allow for a full North American distribution capability, allowing the business to service any customer in the U.S. within 48 hours. Windship has strong brand partnerships with several leading cannabis accessory and CBD brands in the U.S. The U.S. brand portfolio contains Storz & Bickel, CCELL, OCB, Davinci, PUFFCO, and Martha Stewart CBD. In addition to the premium brand portfolio, Windship maintains its own in-house brands to supplement both SKU portfolio and margin objectives. These brands include Anomaly (formally called Elevate) and Piranha. Additional Windship capabilities include B2C e-commerce as well as white labelling for accessory products. As Windship continues to grow and expand its distribution capabilities to customers across the U.S., e-commerce and white labelling opportunities will be a key focus of future growth for the business.

Humble+ Cannabis Solutions

HCS is a cannabis sales agency with national field coverage for both cannabis and cannabis accessories. The first of its kind in Canada, HCS distributes both cannabis and cannabis accessories across all 10 provinces to over 1,000 retail locations. HCS is a category leading supplier with both private key accounts and government customers, with a deep

understanding of how to operate within the regulated market. HCS provides a one-stop solution for retailers, a natural business partner who can deliver brand education, trade marketing materials and customer support. HCS is the exclusive representative of cannabis brands including, Fume, TREC Brands Inc., and Olli Brands Inc.

Fume Labs Inc.

Fume Labs is a cannabis concentrate manufacturing and extraction facility operating from 48North Cannabis Corp. ("48North") fully-licensed processing and propagation plant in Brantford, Ontario. Fume Labs specializes in extraction, formulation, and distribution of cannabis concentrates. Fume Labs offers contract manufacturing and white label opportunities to cannabis brands across Canada. Combining Fume Labs best-in-class R&D and formulation expertise, white label partners are able to create bespoke high-quality products to differentiate their brands in the market. As Fume Labs continues to push the boundaries of formulation and innovation, management expects concentrates expertise to be a catalyst for Fume Labs growth in both the Canadian and U.S. markets.

Overview

During the three months ended September 30, 2021, the organization has continued to execute its strategy of growing its core selection of cannabis brands and cannabis accessories distribution business in both Canada and the U.S. The company continues to successfully execute its strategic growth plans with increased revenue and margin growth in Canadian operations. Over the quarter, the U.S. business experienced a decline in revenue, which was primarily driven by a focus on higher-margin product combined with market pricing pressures. Management continues to execute on its growth strategies throughout the North American market leveraging its Canadian operations experience.

Three Months Ended September 30, 2021 Highlights

- 30% year-over-year gross margin growth from \$3.2 million in Q1 2021 to \$4.2 million in Q1 2022
- Revenue from Canadian operations was up 27%, to a total of \$8.6 million in sales, which was offset by a revenue decline of 25% in U.S. operations, which was \$9.4 million for the quarter.
- Ended the quarter with a strong liquidity position, including a cash balance of \$6.5 million as of September 30, 2021.

Gross margin for the quarter increased to \$4.2 million from \$3.2 million compared to the same quarter in the prior year, representing a growth of 30%. Improvement in gross margin is a result of continued focus on higher margin products and expansion of the company's sales agency business. The net impact of this strategy compared to the same quarter in the prior year has resulted in revenue growth in Canada of \$8.6 million (up 27%) and a revenue decline in U.S. to \$9.4 million (down 25%) for a total consolidated net revenue of \$18.1 million (down 6%). Humble's Canadian operations growth of 27% was primarily driven by the Company's execution of expanding on its sales agency partnerships along with realizing higher margin sales from its core accessories business.

Humble's U.S. subsidiary, Windship Trading, saw a decline in sales as management continues to execute on its strategy of selling high margin products with competitive pricing and discounting tactics. Execution of this strategy has resulted in consolidation of Windship Trading's customer and supply chain relations to meet customer demands. As part of the longer term strategy, management continues to execute its expansion plans of new headshop and smoke shop customers across the U.S., new sub-distribution partnerships and the addition of high-quality brands to the portfolio.

Operating loss in the quarter increased to \$2.1 million from \$1.6 million compared to the same period in the prior year, representing an increase of 31%. Increase in operating loss was driven primarily by addition of key management personnel, new sales staff, and related G&A expenses to support expanding market. Net losses declined by 58% year-over-year, primarily driven by higher gross margins and sales in the quarter from the core distribution business, as well as one time charges related to the fair-value adjustment of the derivative liability for the convertible debenture.

The investments that the organization has made in the Canadian subsidiaries and brands, BobHQ, Humble+Fume, HCS and Fume Labs, have contributed to significant year-over-year growth of 27% in Canada. Increased sales from key governmental accounts and the onboarding of over 432 new customer accounts, complimented by new products and partners from Fume Labs and HCS, also increased overall revenue growth.

Across the Canadian and U.S. distribution business, there has been a focused effort to rationalize the SKU portfolio, reduce slower life cycle products from inventory and focus on high margin products and categories. During the quarter, working capital and procurement was focused on both the high margin and top selling categories of vaporizers, pipes, and grinders. The proportion of sales derived from vaporizers has steadily increased year-over-year due to the high-margin nature of these products and their increased demand in both the Canadian and U.S. markets. As of quarter

end, vaporizers accounted for 55% of total sales, with a product mix of both dry herb vaporizers, 510 batteries, and specialty electronic dab rigs in Canada and U.S. The company anticipates that as new products are innovated and customer preferences mature, vaporizers will continue to be a large offering within Humble's accessory portfolio.

Key Developments During the Quarter

July 5, 2021

Humble welcomes new leadership with Joel Toguri joining as Chief Executive Officer. Mr. Toguri, former Chief Revenue Officer at The Supreme Cannabis Company Inc. (TSX: FIRE), which was purchased by Canopy Growth Corporation (TSX: WEED) in 2021. Mr. Toguri joined Humble with significant leadership experience and a proven track record of delivering superior execution and sales growth in the cannabis industry.

July 8, 2021

HCS enters into exclusive sales distribution partnership with TREC Brands Inc. in Canada. TREC Brands is a global premium cannabis brand house, which includes Thumbs Up Brand, Blissed and WINK cannabis brands offering premium dried flower, edibles, and cannabis oils.

July 15, 2021

Humble launches [FUME](#), a cannabis extracts brand delivering a pure and flavorful cannabis experience. FUME has pioneered a proprietary extraction process that removes terpenes from the plant without the use of solvents, guaranteeing a pure, true-to-strain product. Offering both vape products and concentrates, FUME carefully curates' stains and puts innovation at the forefront of its focus.

Key Developments Subsequent to the Quarter

October 19, 2021

Humble announced it had signed a share purchase agreement to acquire licensed California cannabis distributor, Cabo Connection. The acquisition represents a significant step in becoming a full-service cannabis distributor in the U.S.

November 15, 2021

The Company announced it had completed a US\$8 million private placement by Green Acre Capital Distribution Corp. to acquire 15.23% of Humble, with an LOI to complete definitive agreements for an additional US\$2 million for the formation of a joint venture. Funds will be used to execute on Humble's expansion strategy of cannabis distribution operations in California. Both investments funded, or to be funded, by a subsidiary of Johnson Brothers through the purchase from Green Acre of options to acquire both of Green Acre's investments.

November 24, 2021

The Company was informed by Robert Ritchot, President of North American Accessories and Founder of BobHQ, of his intentions to retire from his operational role at Humble & Fume Inc. effective December 3, 2021. Robert Ritchot will continue to serve as a director of Humble & Fume Inc.

Results of Operations

Key Components of Results of Operations

The Company has always been operated and managed as a single economic entity, notwithstanding the fact that it has operations in different countries. There is one management team that directs the activities of all aspects of the company. As a result, Humble believes that it has one reporting segment, being the consolidated company. Over time, this may change as the Company grows and when this occurs the change will be reflected in reporting practice.

The Company currently generates revenue through the distribution of cannabis and cannabis accessories in Canada and the United States, manufacture and sale of cannabis concentrates and vaporizers, and brand service fees. Revenue is generated through the sale of:

- B2B wholesale of cannabis accessories
- Finished cannabis concentrates and distillates, solventless cannabis products, and vaporizer products such as: cannabis vaporizer cartridges, bulk distillate, partner cannabis vaporizer cartridges, and other regulated products; and
- Service fees for brand partners through Humble Cannabis Solutions.

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

Primary operating expenses are as follows:

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

Summary of Factors Affecting Performance

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

The following table outlines the Company's consolidated statements of loss and comprehensive loss for three months ended September 30 2021 and 2020.

	Three months ended September 30	
	2021	2020
	\$	\$
Revenue	17,144,671	19,186,499
Service Revenue	906,961	232,825
Total Revenue	18,051,632	19,419,324
Cost of revenue	13,864,725	16,202,182
Gross Margin	4,186,907	3,217,142
Operating expenses		
General and administration	1,432,461	857,276
Sales and marketing	355,541	100,604
Salaries and wage	3,412,682	2,593,002
Operations and customer support	284,387	416,585
Depreciation and amortization	260,506	185,798
Share-based payments	495,924	626,976
Operating loss	(2,054,594)	(1,563,099)
Finance expenses, net	62,883	1,195,205
Fair value adjustment	-	782,000
Other expenses (income)	(2,273)	45,874
Listing Expense	-	-
Foreign exchange loss (gain)	(437,160)	385,421
Loss before provision for income taxes	(1,678,044)	(3,971,599)
Current income tax expense	(10,271)	(22,563)
Net loss	(1,667,773)	(3,949,036)
Other comprehensive loss		
Item that may be reclassified subsequently to income		
Exchange (gain) loss on translation of foreign operations	(205,386)	86,562
Comprehensive loss	(1,873,159)	(3,862,474)
Loss per share - basic	(0.02)	(0.07)
Weighted average number of common share outstanding - basic	104,535,607	56,998,112

Quarterly Results of Operations

The following table sets forth selected audited quarterly statements of operations data for each of the previous 9 fiscal quarters commencing September 30, 2019 and ending September 30, 2021.

	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	18,051,632	19,404,102	18,482,752	16,630,591	19,419,324	14,451,195	10,060,917	9,423,599	9,413,687
Net loss	(1,667,773)	(88,904)	(5,837,386)	(3,878,232)	(3,949,036)	(4,662,388)	(4,011,031)	(3,732,128)	(4,479,387)
Loss per share- diluted	(0.02)	(0.00)	(0.10)	(0.07)	(0.07)	(0.08)	(0.07)	(0.06)	(0.08)
Weighted Average Number of Shares	115,149,804	69,067,017	59,721,778	59,721,778	59,721,778	59,735,587	56,998,112	56,998,112	56,998,112

Revenue

Three months ended September 30,				
	2021	2020	Change	
	\$	\$	\$	%
	18,051,632	19,419,324	(1,367,692)	-7%

Consolidated revenue decreased from \$19,419,324 to \$18,051,632 or 7% for the three months ended September 30, 2021 compared to the same period in 2020. Revenues from U.S. operations totaled \$9,421,789 reflecting a decrease of \$3,217,203 or 25% and revenue from Canadian operations grew to a total of \$8,629,843 reflecting an increase of \$1,849,511 or 27%. The decrease in year-over-year revenue in the U.S. is attributable to management's continued focus on higher margin products resulting in consolidation of U.S. customer accounts and supply chain relations on these higher margin high quality products. The increase in year-over-year revenue in Canada is attributable to increased sales from key governmental accounts, the onboarding of over 900 new customer accounts, and new products and partners from Fume Labs and HCS.

Cost of Revenue

Three months ended September 30,				
	2021	2020	Change	
	\$	\$	\$	%
	13,864,725	16,202,182	(2,337,457)	-14%

Cost of revenue decreased from \$16,202,182 to \$13,864,725 or 14% for the three months ended September 30, 2021 compared to the equivalent period in the prior year. The decrease in cost of revenue is largely consistent with the decrease in revenue for the period driven from the sales of the Company's distribution businesses.

Gross Profit

Three months ended September 30,				
	2021	2020	Change	
	\$	\$	\$	%
	4,186,907	3,217,142	969,765	30%

Gross profit increased from \$3,217,142 to \$4,186,907 or 30% for the three months ended September 30, 2021 compared to the equivalent period in the prior year. The increase in gross profit is driven by a higher volume of sales of the Company's accessories product offering and a focus on increasing accessory product margins, contributions from Fume Labs and HCS, as well as increased discipline regarding sales discount programs.

Operating Expenses Summary

Annual operating expenses increased from \$4,780,241 as of September 30, 2020 to \$6,183,419 in September 30, 2021. The increase in overall operating expenses are mainly attributable to increases in payroll to support revenue growth and related general and administrative and sales and marketing expense. As a percentage of revenues, total operating expenses increased from 25% as of September 30, 2020 to 34% in September 30, 2021.

	Three months ended September 30,			
	2021	2020	Change	
	\$	\$	\$	%
General and administration	1,432,461	857,276	575,185	67%
Sales and marketing	355,541	100,604	254,937	253%
Salaries and wage	3,412,682	2,593,002	819,680	32%
Operations and customer support	284,387	416,585	(132,198)	-32%
Depreciation and amortization	260,506	185,798	74,708	40%
Share-based payments	495,924	626,976	(131,052)	-21%
Total operating expenses	6,241,501	4,780,241	1,461,260	31%

General and Administrative Expenses

	Three months ended September 30,			
	2021	2020	Change	
	\$	\$	\$	%
	1,432,461	857,276	575,185	67%

General and administrative expenses increased by \$575,185 or 67% for the three months ended September 30, 2021 from \$857,276 to \$1,432,461 compared to the equivalent period in the prior year. Humble also anticipates increases to general and administrative expense, as the Company incurs the ongoing costs of compliance associated with being a public company, including accounting and legal expenses. However, as the Company grows, we expect that general and administrative expenses will decrease as a percentage of revenue.

Sales and Marketing Expenses

	Three months ended September 30,			
	2021	2020	Change	
	\$	\$	\$	%
	355,541	100,604	254,937	253%

Sales and marketing costs increased by \$254,937 or 253% for the three months ended September 30, 2021 compared to the equivalent period in the prior year. The increase in costs is primarily driven by easing of pandemic restrictions resulting in a continuation of tradeshow and related travel. To implement the current growth strategy, the Company intends to continue to grow the sales and marketing teams. As the Company continues to grow, Humble expects sales and marketing expenses to increase, while these expenses may fluctuate from year to year, consistent with profitability objectives and relative to overall growth.

Salaries and Wages

Three months ended September 30,				
2021	2020	Change		
\$	\$	\$		%
3,412,682	2,593,002	819,680		32%

Salaries and wages represent the largest segment of operating expense for Humble and totalled \$3,412,682 for the three months ended September 30, 2021 compared to \$2,593,002 over the same period in the prior year. The increase in salaries and wages is attributable to increases in headcount in both the Canadian and U.S. salesforces as well as expansion of management personnel.

Operations and Customer Support Expenses

Three months ended September 30,				
2021	2020	Change		
\$	\$	\$		%
284,387	416,585	(132,198)		-32%

Operations and customer support decreased by \$132,198 or 32% for the three months ended September 30, 2021 compared to the equivalent period in the prior year. The decrease in costs is in line with lower volume of overall revenue primarily driven by U.S. operations with a smaller offset in Canadian operations seeing revenue growth.

Depreciation and Amortization Expense

Three months ended September 30,				
2021	2020	Change		
\$	\$	\$		%
260,506	185,798	74,708		40%

Depreciation and amortization increased by \$74,708 or 40% for the three months ended September 30, 2021 compared to the equivalent period in the prior year. The increase is primarily due to additional purchases of property, plant and equipment, increased IT equipment expenses as headcount expanded, and the increases in the right-of-use assets related to property leases during the quarter ended September 30, 2021.

Share-based Payments

Three months ended September 30,			
2021	2020	Change	
\$	\$	\$	%
495,924	626,976	(131,052)	-21%

Share based compensation decreased from \$626,976 to \$495,924 or 21% for the three months ended September 30, 2021 compared to the same period in the prior year. Share based compensation is directly attributable to the organizations establishment of an employee share program (ESOP) and granting of options related to new corporate staff.

Non-operating Items Summary

	Three months ended September 30,			
	2021	2020	Change	
	\$	\$	\$	%
Finance expenses, net	62,883	1,195,205	(1,132,322)	-95%
Fair value adjustment	-	782,000	(782,000)	-100%
Other expenses (income)	(2,273)	45,874	(48,147)	-105%
Foreign exchange loss (gain)	(437,160)	385,421	(822,581)	-213%
Total non-operating expenses	(376,550)	2,408,500	(2,785,050)	-116%

Finance Expense

Finance expense decreased from \$1,195,205 to \$62,883 or 95% for the three months ended September 30, 2021 compared to the same period in the prior year. The decrease was primarily due to the accretion expense on the convertible debentures issued May 2019 and exercised on June 14, 2021 resulting in conversion of the debt to share capital.

Fair Value Adjustment

Fair value adjustment fluctuates based upon the valuation of the derivative liability for the convertible debenture conversion feature. The valuation of the derivative liability is based on a number of factors including share price, volatility, risk free and probabilities of certain events and therefore can fluctuate significantly. Fair value adjustment was nil for the three months ended September 30, 2021 compared to \$782,000 for the same period in the prior year as the convertible debenture was exercised on June 14, 2021.

Other Expenses (income)

Other expenses (income) decreased from an expense of \$45,874 to other income of \$2,273 for the three months ended September 30, 2021 compared to the same period in the prior year. The change in other expenses (income) was primarily due to reductions in certain miscellaneous expenses for the period.

Foreign Exchange Loss (gain)

Foreign exchange loss (gain) fluctuates depending on the strength of the U.S. dollar relative to the Canadian dollar and its impact on cash balances held in U.S. dollars. Humble saw an increase in foreign exchange gain from a loss of \$385,421 to a gain of \$437,160 for the three months ended September 30, 2021 compared to the same period in the prior year.

Net Losses

Annual net losses declined from \$3,949,036 in September 30, 2020 to \$1,667,773 as of September 30, 2021. The improvement in net losses year-over-year for the quarter is due to the settlement of the convertible debenture on June 14, 2021 resulting in nil accretion and fair value adjustment.

Selected Information

Total Assets

September 30, 2021 and June 30, 2021

The total assets decreased from \$36,654,432 to \$35,859,294 as at September 30, 2021 compared to June 30, 2021. The decrease was primarily in current assets of taxes recoverable from a balance of \$875,242 to \$257,628. A decrease in cash was mainly offset by an increase in accounts receivable and inventory. Inventories slightly increased year-over-year from \$16,750,812 to \$17,818,394. Management expects to realize a continued optimization of its inventory levels resulting in improved working capital demands.

Total Long-term Liabilities

September 30, 2021 and June 30, 2021

Total liabilities increased from \$7,346,312 to \$8,047,836 for the three months ended September 30, 2021 compared to the prior year ended June 30, 2021. The increase was largely due to accounts payable from a balance of \$5,250,454 as at June 30, 2021 to \$6,085,342 reflecting an increased purchases of inventory.

Liquidity, Capital Resources and Financing

The Company's objectives when managing capital are:

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

The company defines capital as the aggregate of equity.

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.

Working Capital

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

Working capital surplus as at September 30, 2021 was \$25,392,895 equivalent to the net current assets of the Company. This is a decrease of \$1,406,930 compared to the balance as at June 30, 2021. Humble continues to optimize its working capital position by way of an efficient procurement in meeting customer fulfillment demands.

Cash and Cash equivalents

	Three Months Ended September 30,	
	2021	2020
	\$	\$
	6,473,220	4,856,445
Net cash provided by (used in):		-
Operating activities	(2,616,198)	(1,278,106)
Investing activities	(8,955)	63,546
Financing activities	(344,948)	(251,998)
Effect of foreign exchange on cash and cash equivalents	(211,230)	(31,164)
Net increase (decrease) in cash and cash equivalents	(3,181,331)	(1,497,722)

Cash Flows Used in/from Operating Activities

The cash flows used in operating activities for the three months ended September 30, 2021 increased from \$1,278,106 to \$2,616,198 when compared to the same period in the prior year. The increase in the cash flows used in operating activities is primarily due to cash needed in supporting sales growth by way of inventory purchases, salaries & wages and other general administrative expenses.

Cash Flows Used in Investing Activities

The cash flows provided/(used) by investing activities for the three months ended September 30, 2021 decreased from \$63,546 to \$(8,955) compared to the equivalent period in the prior year. The cash flow from investing activities decreased primarily due to a drop in cash used in property plant & equipment along with advances from related parties.

Cash Flows Used in/from Financing Activities

The cash flows used by financing activities for the three months ended September 30, 2021 increased from \$(251,998) to \$(344,948) compared to the equivalent period in the prior year. The increase in cash flows from financing activities for the quarter ended was primarily from settlement of employee stock based compensation.

Contractual Obligations

We have contractual obligations with a variety of expiration dates. The table below outlines all contractual obligations as at September 30, 2021:

	Carrying amount	Contractual cash flow	2022	2023	2024	2025	2026	Thereafter
Lease liability	\$1,962,493	\$2,817,476	\$878,427	\$454,064	\$335,005	\$281,590	\$280,322	\$588,067
Trade and other payable	\$6,085,342	\$6,085,343	\$6,085,343	-	-	-	-	-
Total	\$8,047,835	\$8,902,819	\$6,963,770	\$454,064	\$335,005	\$281,590	\$280,322	\$588,067

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at September 30, 2021 other than operating leases disclosed above under "Contractual Obligations". From time to time, Humble may be contingently liable with respect to litigation and claims that arise in the normal course of operations.

Related Party Transaction

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

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

	September 30, 2021	June 30, 2021
Due from Shareholders	384,067	382,580
Due from related parties	\$ 384,067	\$ 382,580

Key management includes the Company's directors and members of the executive management team. Total compensation of key management personnel and directors was \$602,893 for the quarter ended September 30, 2021 (2020-\$213,405), which included \$283,215 of salaries (2020-\$202,792), and \$319,678 (2020-\$10,613) in stock-based compensation expense.

The Company has entered into Lease Agreements with RKCB Holdings Inc. ("RKCB") for the rental of premises at 915 Douglas St. and 18th Street. RKCB is controlled by members of the Company's executive management.

A member of the Board of Directors was granted 500,000 stock options during the year ended June 30, 2021. The options vest over 3 years and have a 10 year expiry and were issued at an exercise price of \$1. The fair value is included in the stock-based compensation amount in the Consolidated Statements of Loss and Comprehensive Loss.

During the three months ended September 30, 2021 the Company purchased \$248,963 (\$323,869 – 2020) of inventory from a company that was owned and controlled by two shareholders.

The Company purchased credit card processing services through a company that purchases services from an intermediary that has a minor ownership stake from a related party. During the three months ended September 30, 2021 and 2020 the Company purchased \$225,845 and \$365,002 respectively of these services, of which \$18,067 (2021) and \$29,200 (2020) of these services are purchased from the entity that the related party has a minor stake.

Financial Instruments and Other Instruments

Credit risk

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

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

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

The Company's cash subjects the Company to credit risk. At September 30, 2021, the Company had cash of approximately \$6.5 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 95% 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 three customers comprising 42% of trade receivables at September 30, 2021 and one customer comprising 46% of trade receivables at September 30, 2020.

At September 30, 2021 and 2020 the Company does not consider any of its financial assets to be impaired, with the exception of accounts receivable balances for which a provision has been recorded.

At September 30, 2021, \$1,833,796 (2020-\$2,051,849) of accounts receivable was past due based on contractual terms but not impaired.

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

	September 30, 2021	June 30, 2021
	Gross	Gross
Not past due	\$ 2,869,699	\$ 1,664,797
Past due 1-30 days	1,441,417	849,700
Past due 31-90 days	58,153	47,180
Past due 90+ days	490,462	315,314
	\$ 4,859,731	\$ 2,876,991

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

Foreign Currency Exchange Risk

The Company generates sales of product in Canadian and U.S. dollars and incurs its expenses in both U.S. and Canadian dollars and is therefore exposed to risk from changes in foreign currency rates. In addition, the Company holds financial assets and liabilities in U.S. dollars that expose the Company to foreign exchange risks. The Company has a self-sustaining operation in the U.S. with 52% (65%-2020) of its revenue being U.S. dollar denominated. The Company does not utilize any financial instruments or cash management policies to mitigate the risks arising from changes in foreign currency rates.

At September 30, 2021, the Company had U.S. dollar denominated cash of approximately US\$1,313,626 (2020: \$582,786) and U.S. dollar denominated net assets of approximately US\$4,286,032 (2020-\$5,985,203). The remaining amounts were denominated in Canadian dollars. Gains and losses arising upon translation of these amounts into Canadian dollars for inclusion in the consolidated financial statements are recorded in other income and expenses as foreign exchange.

A 5% strengthening of the U.S. dollar versus the Canadian dollar, at September 30, 2021, would have increased the foreign exchange gain for the year by approximately \$214,300 (2020: \$299,000) while a 5% weakening of the U.S. dollar would have had approximately the equal but opposite effect. This analysis assumes that all other variables remain constant.

Critical Accounting Policy Estimates

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

Authorized Share Capital

Humble is currently authorized to issue an unlimited number of common shares. As of the date hereof, 104,579,629 common shares are issued and outstanding.

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

	Number of shares
Share Capital	104,579,629
Stock Options	4,944,000

Risk Factors

The Company's overall performance and results of operations are subject to various risks and uncertainties that may materially and adversely affect the business, products, financial condition, and operations and may cause actual performance, results and achievements to differ materially from those expressed or implied by forward-looking statements and forward-looking information, including, without limitation, the factors are discussed in our Filing Statement dated June 14, 2021 available under the Company's profile on www.sedar.com, which risk factors should be reviewed in detail by all readers.

Definition of Non-IFRS Measures

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

Adjusted EBITDA

Adjusted EBITDA is used by management as a supplemental measure to review and assess operating performance and trends on a comparable basis. The Company defines Adjusted EBITDA as net loss excluding taxes (if applicable), loss on change in fair value of derivative liabilities relating to convertible debentures, net finance expense, depreciation, loss on disposal of assets, share based compensation and transaction related expenses. Management believes that these adjustments are appropriate in making Adjusted EBITDA an approximation of cash-based earnings from operations before capital replacement, financing, and income tax charges. Adjusted EBITDA does not have a standardized meaning under IFRS and is not a measure of operating income, operating performance or liquidity presented in accordance with IFRS and is subject to important limitations. The Company's definition of Adjusted EBITDA may be different than similarly titled measures used by other companies.

Reconciliation of IFRS loss (gain) to adjusted EBITDA

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

	Three Months Ended September 30,	
	2021	2020
	\$	\$
Net (loss) gain	(1,667,773)	(3,949,036)
Finance expense	62,883	1,195,205
Fair value adjustment	-	782,000
Depreciation and amortization	260,506	185,798
Share-based payments	495,924	626,976
Current income tax expense	(10,271)	(22,563)
Foreign exchange (gain) loss	(437,160)	385,421
Adjusted EBITDA	(1,295,891)	(796,199)

Adjusted EBITDA for the three months ended September 30, 2021 was \$(1.3) million, compared to \$(.8) million for the same period in the prior year. Changes in year-over-year adjusted EBITDA were driven primarily by one-time adjustments in the fair value of the derivative liability for the convertible debenture and fluctuations in the foreign exchange gain/loss for each period.