February 27, 2022

Humble & Fume Inc.

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

For the Six and Three Months Ended December 31, 2021

humble + fume

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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 six month period ended December 31, 2021 and 2020. This MD&A should be read in conjunction with the interim condensed consolidated financial statements and the notes thereto for the six months ended December 31, 2021 and 2020. The six 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 February 27, 2022.

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") Humble+Fume, Windship Trading LLC ("Windship"), Humble+ Cannabis Solutions ("HCS") and Fume Labs Inc. ("Fume Labs").

Humble's Wholly Owned Operating Subsidiaries & Brands

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

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

Windship Trading LLC

Windship is one of the leading distributors of cannabis consumption devices for headshops and smoke shops in the United States ("U.S."). Since 2010, Windship has serviced thousands of smoke shop retailers, sub-distributors, e-commerce companies and CBD retailers. Currently offering over 8,000 products, including grinders, papers, pipes, vaporizers, and cleaning products, Windship services the whole cannabis experience. Windship has active operations in San Marcos, Texas, Denver, Colorado, Las Vegas, Nevada and Los Angeles, California, with international distribution capabilities as well, allowing the business to service any customer in the U.S. within 48 hours. Windship has strong brand partnerships with several leading cannabis accessory and CBD brands in the U.S. including, Storz & Bickel, CCELL, OCB, PUFFCO, and Martha Stewart CBD.

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, TREC Brands Inc., Olli Brands Inc., Nuveev WYLD, HARTS, and Fume.

Fume Labs Inc.

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

Satisfying our customers' needs is always top of mind. We value the quality of our relationships, and we are in constant communication with our customers to better understand how we can help them succeed. That's why our focus in Q2 has been about right-sizing our business to ensure we can be the best we can be in serving our customers. We focused on streamlining our process, enhancing the skill sets of our people, curating an industry-leading product mix, improving our technology and expansion into California.

RIGHT-SIZING OUR BUSINESS TO INCREASE OUR EFFICIENCY

Management recognizes that our customers expect us to deliver a seamless end-to-end user experience. To achieve that goal, management addressed the complexity of how the Company delivered on that promise and took steps to ensure the right team is in place to satisfy customers' needs. This commenced by reviewing our physical footprint. Management determined that optimizing our pick, pack and ship efforts necessitated closing our 13,000 square foot warehouse in Florida. By reducing our footprint and centralizing our warehouse operations to NV and TX locations we have positively affected the customer experience and improved inventory management. By centralizing our efforts, we have realized efficiencies at every step of the customer experience.

Inventory management continues to be a priority in the business as Management balances the need to have the right mix of products on hand to satisfy our retail network while avoiding having an overstock of products that do not resonate with the end consumer. Our inventory management process provides our vendor base with important feedback about what is and is not connecting with retailers and consumers.

Over the quarter, the Company continued to work towards managing working capital and inventory levels. This included the sale of clearance items and change in related inventory provision, which resulted in a gross profit margin impact of $.477 million and a net write down of inventory of $.366 million respectively.

Addressing our physical footprint was done in tandem with an ongoing review of the people and the skill sets within our business. We focused first on our sales team because these are the people on the front lines securing and building relationships with our customers. Our culture of continuous improvement is committed to building the most consumer-centric, informed network of sales professionals. Management provided enhanced training and product knowledge to our key sales professionals, aggressively pursued proven industry veterans to join our team, and implemented workforce reduction of approximately 46 personnel and an annualized savings of $1.75 million.

As a result of these initiatives the company incurred an incidental restructuring charge of $.721 million driven by termination pay arising from personnel reduction, lease cancellation expense related to the Florida warehouse closure and freight charges tied to relocation of inventory.

Evolving our internal systems and processes provides the customer with a user-friendly experience and ensures increased cost-effective management of our day-to-day business. To better serve our customers and bring greater efficiency to our payment process, we onboarded a credit card processing service that is estimated to deliver $.2M of annualized savings.

Curating our industry-leading product mix has included entering into an exclusive sales representation agreement with Galaxie Brands Corporation for the commercialization and distribution of Wyld cannabis edibles in Canada. Wyld is the fastest-growing edible in Canada and the Company has significant edible market share (22%) in the operating US states.

As part of our targeted and aggressive growth strategy to become the leading North American distributor of cannabis and cannabis accessories, we are very excited about our entry into the California market. California is the number one market in the United States and has many similarities to the Canadian market. We have set ourselves up for success with two key additions, the first is a previously announced agreement to acquire a licensed California cannabis distributor, Cabo Connection, and the second is a transformative investment by Johnson Brothers through Green Acre

Capital as a seasoned beverage distributor in exploring access and opportunities in a $6.5 billion California cannabis market.

Key Developments During the Quarter

October 19, 2021
As part of our U.S. expansion strategy, 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.

Key Developments Subsequent to the Quarter

February 25, 2022
The Company announces that on February 25, 2022, President and Founder of Windship Trading, Nathan Todd, will be stepping away from his position with Humble to explore new opportunities. Mr. Todd will maintain his role on the Board of Directors.

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 six months ended December 31 2021 and 2020.

	Six months ended December 31		Three months ended December 31,	
	2021	2020	2021	2020
	$	$	$	$
Revenue	33,304,107	35,303,928	16,159,436	16,117,429
Service Revenue	1,600,809	922,790	693,849	689,965
Total Revenue	34,904,916	36,226,718	16,853,284	16,807,394
Cost of revenue	28,294,552	28,737,189	14,429,827	12,535,007
Gross Margin	6,610,364	7,489,529	2,423,457	4,272,387
Operating expenses				
General and administration	2,887,838	2,303,271	1,455,377	1,445,995
Sales and marketing	675,981	708,526	320,440	607,922
Salaries and wage	6,618,759	5,354,166	3,206,077	2,761,164
Operations and customer support	495,439	481,199	211,052	64,614
Depreciation and amortization	519,200	652,683	258,694	466,885
Share-based payments	888,217	813,036	392,293	186,060
Restructuring Charge	720,995	-	720,995	-
Operating loss	(6,196,065)	(2,823,352)	(4,141,471)	(1,260,253)
Finance expenses, net	131,715	2,377,386	68,832	1,182,181
Fair value adjustment	-	1,001,626	-	219,626
Other expenses (income)	110,933	(16,834)	113,206	(62,708)
Listing Expense	-	-	-	-
Foreign exchange loss (gain)	(573,884)	886,599	(136,724)	501,178
Loss before provision for income taxes	(5,864,829)	(7,072,129)	(4,186,785)	(3,100,530)
Current income tax expense	(45,126)	-	(34,855)	22,563
Net loss	(5,819,703)	(7,072,129)	(4,151,930)	(3,123,093)
Other comprehensive loss				
Item that may be reclassified subsequently to income				
Exchange (gain) loss on translation of foreign operations	37,211	378,774	242,597	292,212
Comprehensive loss	(5,782,492)	(6,693,355)	(3,909,333)	(2,830,881)
Loss per share - basic	(0.05)	(0.11)	(0.03)	(0.05)
Weighted average number of common share outstanding - basic & dilutive	120,535,895	59,721,778	125,935,679	59,721,778

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 December 31, 2019 and ending December 31, 2021.

	December 31, 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
	$		$	$	$	$	$	$	$
Revenue	16,853,284	18,051,632	19,404,102	18,482,752	16,630,591	36,226,718	14,451,195	10,060,917	9,423,599
Net loss	(4,151,930)	(1,667,773)	(88,904)	(5,837,386)	(3,878,232)	(7,072,129)	(4,662,388)	(4,011,031)	(3,732,128)
Loss per share- diluted	(0.03)	(0.02)	(0.00)	(0.10)	(0.07)	(0.12)	(0.08)	(0.07)	(0.06)
Weighted Average Number of Shares	125,852,420	115,149,804	69,067,017	59,721,778	59,721,778	59,721,778	59,735,587	56,998,112	56,998,112

Revenue

Six months ended December 31,				Three months ended December 31,			
2021	2020	Change		2021	2020	Change	
$	$	$	%	$	$	$	%
34,904,916	36,226,718	(1,321,802)	-4%	16,853,284	16,807,394	45,890	0%

Consolidated revenue increased from $16,807,394 to $16,853,284 for the three months ended December 31, 2021 compared to the same period in 2020. Revenues from U.S. operations totaled $8,776,911 reflecting an increase of $150,935 or 2% and revenue from Canadian operations declined to a total of $7,925,437 reflecting a decrease of $105,046 or 1%. Consolidated revenue decreased from $36,226,718 to $34,904,916 or 4% for the six months ended December 31, 2021 compared to the same period in 2020. Revenues from U.S. operations totaled $18,349,635 reflecting a decrease of $3,066,268 or 14% and revenue from Canadian operations grew to a total of $16,555,280 reflecting an increase of $1,744,465 or 12%. 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 430 new customer accounts, and new products and partners from Fume Labs and HCS.

Cost of Revenue

Six months ended December 31,				Three months ended December 31,			
2021	2020	Change		2021	2020	Change	
$	$	$	%	$	$	$	%
28,294,552	28,737,189	(442,637)	-2%	14,429,827	12,535,007	1,894,820	15%

Cost of revenue increased from $12,535,007 to $14,429,827 or 15% for the three months ended December 31, 2021 compared to the same period in 2020. The increase in cost of revenue over this period is largely attributable to a change of the company's inventory impairment provision along with sale of related clearance inventory. This amounted to a total cost of $1.06 million and .366 million for clearance items and change to inventory provision respectively. Cost of revenue decreased from $28,737,189 to $28,294,552 or 2% for the six months ended December 31, 2021 compared to the same period in 2020. The decrease in cost of revenue over the six month period is largely consistent with the decrease in revenue for the period driven from the sales of the Company's distribution businesses.

Gross Profit

Six months ended December 31,				Three months ended December 31,			
2021	2020	Change		2021	2020	Change	
$	$	$	%	$	$	$	%
6,610,364	7,489,529	(879,165)	-12%	2,423,457	4,272,387	(1,848,930)	-43%

Gross profit decreased from $4,272,387 to $2,423,457 or 43% for the three months ended December 31, 2021 compared to the equivalent period in the prior year. The decrease in gross profit over this period is largely attributable to a change of the company's inventory impairment provision along with sale of related clearance inventory. This amounted to a total gross profit impact of $.477 million and .366 million for clearance items and change to inventory provision respectively. Gross profit decreased from $7,489,529 to $6,610,364 or 12% for the six months ended December 31, 2021 compared to the equivalent period in the prior year. The company continues to focus on 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

	Six months ended December 31,				Three months ended December 31,			
	2021	2020	Change		2021	2020	Change	
	$	$	$	%	$	$	$	%
General and administration	2,887,838	2,303,271	584,567	25%	1,455,377	1,445,995	9,382	1%
Sales and marketing	675,981	708,526	(32,545)	-5%	320,440	607,922	(287,482)	-47%
Salaries and wage	6,618,759	5,354,166	1,264,593	24%	3,206,077	2,761,164	444,913	16%
Operations and customer support	495,439	481,199	14,240	3%	211,052	64,614	146,438	227%
Depreciation and amortization	519,200	652,683	(133,483)	-20%	258,694	466,885	(208,191)	-45%
Share-based payments	888,217	813,036	75,181	9%	392,293	186,060	206,233	111%
Restructuring Charge	720,995	-	720,995	-	720,995	-	720,995	-
Total operating expenses	12,806,429	10,312,881	2,493,548	24%	6,564,928	5,532,640	1,032,288	19%

Operating expenses increased from $5,532,640 to $6,548,523 for the three months ended December 31, 2021. The increase in year-over-year operating expense is mainly attributable to restructuring costs such as termination, rent impairments, associated legal fees for deal transactions and a rightsizing of the sales team to support revenue growth and expenses incurred in lieu of restructuring charges undertaken by the company in the quarter. As a percentage of revenues, total operating expenses increased by 19% over the quarter.

General and Administrative Expenses

Six months ended December 31,				Three months ended December 31,			
2021	2020	Change		2021	2020	Change	
$	$	$	%	$	$	$	%
2,887,838	2,303,271	584,567	25%	1,455,377	1,445,995	9,382	1%

General and administrative expenses increased by $9,382 or 1% for the three months ended December 31, 2021 from $1,445,995 to $1,455,377 compared to the same quarter in 2020. The increase to general and administrative expenses over the six months ended December 31, 2021 was $584,567 or 25% compared to the same 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, as well as a result of the U.S. expansion strategy. However, as the Company grows, we expect that general and administrative expenses will decrease as a percentage of revenue.

Sales and Marketing Expenses

Six months ended December 31,				Three months ended December 31,			
2021	2020	Change		2021	2020	Change	
$	$	$	%	$	$	$	%
675,981	708,526	(32,545)	-5%	320,440	607,922	(287,482)	-47%

Sales and marketing costs decreased by $287,482 or 47% for the three months ended December 31,2021 compared to the equivalent period in the prior year. The decrease to sales and marketing expense over the six months ended December 31, 2021 was $32,545 or 5% compared to the same period in the prior year. 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

Six months ended December 31,				Three months ended December 31,			
2021	2020	Change		2021	2020	Change	
$	$	$	%	$	$	$	%
6,618,759	5,354,166	1,264,593	24%	3,206,077	2,761,164	444,913	16%

Salaries and wages represent the largest segment of operating expense for Humble and totalled $3,206,077 for the three months ended December 31, 2021 compared to $2,761,164 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. The increase to salaries and wages expense over the six months ended December 31, 2021 was $1,264,593 or 24% compared to the same period in the prior year.

Operations and Customer Support Expenses

Six months ended December 31,				Three months ended December 31,			
2021	2020	Change		2021	2020	Change	
$	$	$	%	$	$	$	%
495,439	481,199	14,240	3%	211,052	64,614	146,438	227%

Operations and customer support increased by $146,438 or 227% for the three months ended December 31, 2021 compared to the equivalent period in the prior year. The increase to operations and customer support for the six months ended December 31, 2021 was $14,240 or 3% which has been largely consistent over the same period in the prior year.

Depreciation and Amortization Expense

Six months ended December 31,				Three months ended December 31,			
2021	2020	Change		2021	2020	Change	
$	$	$	%	$	$	$	%
519,200	652,683	(133,483)	-20%	258,694	466,885	(208,191)	-45%

Depreciation and amortization decreased by $208,191 or 45% for the three months ended December 31, 2021 compared to the equivalent period in the prior year. The decrease over the six months ended December 31, 2021 was $133,483 or 20% compared to the same period in the prior year. The decrease is primarily due to disposal of right of

use assets in lieu of the company's restructuring efforts with the closure of a warehouse in Florida along with office sites in Ontario.

Share-based Payments

Six months ended December 31,				Three months ended December 31,			
2021	2020	Change		2021	2020	Change	
$	$	$	%	$	$	$	%
888,217	813,036	75,181	9%	392,293	186,060	206,233	111%

Share based compensation increased from $186,060 to $392,293 or 111% for the three months ended December 31, 2021 compared to the same period in the prior year. Increase to share based compensation was $75,181 for the six months ended December 31, 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 and RSUs related to new corporate staff.

Restructuring Charge

Six months ended December 31,				Three months ended December 31,			
2021	2020	Change		2021	2020	Change	
$	$	$	%	$	$	$	%
720,995	-	720,995	-	720,995	-	720,995	-

The company was engaged in restructuring efforts during the three months ended December 31, 2021. The restructuring charge amounted to a total of $720,995 vs nil compared to the same period in the prior year. The restructuring charge was driven primarily by divesture of the retail channel at B.O.B headquarters inc., termination pay accrual, and early termination fees over the closure of a warehouse in Florida. The restructuring effort is thus consolidating U.S. supply chain along with executing in management's goal of shifting focus towards higher margin sales and related channels.

Non-operating Items Summary

	Six months ended December 31,				Three months ended December 31,			
	2021	2020	Change		2021	2020	Change	
	$	$	$	%	$	$	$	%
Finance expenses, net	131,715	2,377,386	(2,245,671)	-94%	68,832	1,182,181	(1,113,349)	-94%
Fair value adjustment	-	1,001,626	(1,001,626)	-100%	-	219,626	(219,626)	-100%
Other expenses (income)	110,933	(16,834)	127,767	-759%	113,206	(62,708)	175,914	-281%
Foreign exchange loss (gain)	(573,884)	886,599	(1,460,483)	-165%	(136,724)	501,178	(637,902)	-127%
Total non-operating expenses	(331,236)	4,248,777	(4,580,013)	-108%	45,314	1,840,277	(1,794,963)	-98%

Finance Expense

Finance expense decreased from $1,182,181 to $68,832 or 94% for the three months ended December 31, 2021 compared to the same period in the prior year. The decrease to finance expense for the six months ended December 31, 2021 was $2,245,671 or 94% 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 and six months ended December 31, 2021 compared to $219, 626 and $1,001,626 for the same periods in the prior year as the convertible debenture was exercised on June 14, 2021.

Other Expenses (income)

Other expenses (income) increased from an income of $62,708 and $16,834 to an expense of $113,206 and $110,933 for the three and six months ended December 31, 2021 compared to the same period in the prior year. The change in other expenses (income) was primarily due to an increase 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 $501, 178 to a gain of $136,724 for the three months ended December 31, 2021 compared to the same period in the prior year. The increase in foreign exchange gain for the six months ended December 31, 2021 was $1,460,483 or 165%.

Net Losses

Net loss increased from $3,123,093 in December 31, 2020 to $4,151,930 as of December 31, 2021. The increase in net loss for the three months ended December 31, 2021 is driven by a decrease in gross profit margin along with restructuring expense incurred in the period. The decrease in gross profit margin is a result in the change of the entity's inventory impairment provision along and related sale of inventory. Humble continues to focus the Net loss improved for the six months ended December 31, 2021 by $1,252,426 due to the settlement of the convertible debenture on June 14, 2021 resulting in nil accretion and fair value adjustment compared to the same period in the prior year.

Selected Information

Total Assets

December 31, 2021 and June 30, 2021

The total assets increased from $36,654,432 to $40,487,767 as at December 31, 2021 compared to June 30, 2021. The increase was primarily in current assets of cash from a balance of $9,654,551 to $14,277,061. Accounts receivable increased slightly year-over-year from $2,718,873 to $3,814,227 this was offset by a decrease in the carrying amount of inventory from $16,750,812 to $15,748,720. Management expects to realize a continued optimization of its inventory levels resulting in improved working capital demands.

Total Long-term Liabilities

December 31, 2021 and June 30, 2021

Total liabilities decreased from $7,346,312 to $6,743,729 as at December 31, 2021 compared to the prior year ended June 30, 2021. The decrease was largely due to the disposal of right of use assets with a corresponding drop in the current and long term portion of lease liability (total lease liability of $1,244,849 at December 31, 2021 vs $2,095,858 at June 30, 2021).

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 December 31, 2021 was $31,692,346 equivalent to the net current assets of the Company. This is an increase of $4,892,521 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

	Six Months Ended December 31,	
	2021	2020
	$	$
	14,277,061	3,275,584
Net cash provided by (used in):		
Operating activities	(4,061,139)	(2,550,123)
Investing activities	(19,128)	(110,581)
Financing activities	9,078,181	(376,236)
Effect of foreign exchange on cash and cash equivalents	(174,688)	(41,643)
Net increase (decrease) in cash and cash equivalents	4,823,226	(3,078,583)

Cash Flows Used in/from Operating Activities

The cash flows used in operating activities for the six months ended December 31, 2021 increased from $2,550,123 to $4,061,139 when compared to the same period in the prior year. The increase in the cash flows used in operating activities is primarily due to a lower gross profit margin and higher operations expense in the form restructuring charge and of salaries/wages. Operational cash use is also seen in the increase of prepaid deposit as funds are held in escrow in lieu of the company's expansion plans in the state of California.

Cash Flows Used in/from Investing Activities

The cash flows used in investing activities for the six months ended December 31, 2021 decreased from $110,581 to $19,128 compared to the equivalent period in the prior year. The cash flow from investing activities decreased primarily due to a drop in purchases of property plant & equipment.

Cash Flows Used in/from Financing Activities

The cash flows from financing activities for the six months ended December 31, 2021 increased from a use of $376,236 to provide of $9,078,181 compared to the equivalent period in the prior year. The increase in cash flows from financing activities is largely due to Humble entering into a private placement subscription agreement on November 12, 2021. The agreement set forth the purchase of 18,795,471 common shares of the Company at a purchase price of $.53 per share. The proceeds from issuance of common shares net of transaction and legal costs amounts to $9,655,008 offset by lease payments and netted with cash from exercise of options.

Contractual Obligations

We have contractual obligations with a variety of expiration dates. The table below outlines all contractual obligations as at December 31, 2021:

	Carrying amount	Contractual cash flow	2022	2023	2024	2025	2026	Thereafter
Lease liability	$1,244,849	$2,216,596	$568,188	$375,917	$286,491	$232,000	$232,000	$522,000
Trade and other payable	$5,498,879	$5,498,879	$5,498,879	-	-	-	-	-
Total	$6,743,728	$7,715,475	$6,067,067	$375,917	$286,491	$232,000	$232,000	$522,000

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at December 31, 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.

	December 31, 2021	December 31, 2020
Due from Shareholders	385,570	382,580
Due from related parties	$ 385,570	$ 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 $1,321,602 for the six months ended December 31, 2021 (2020-$487,947), which included $773,638 of salaries (2020-$474,219), and $547,964 (2020-$13,728) in stock-based compensation expense.

Included in salaries is $200,404 relating to payments made under separation agreements with two former management individuals. As at December 31, 2021 $200,404 was included in accounts payable and accrued liabilities. As part of one of the separation agreements the former management individual was sold open box and inactive inventory for $80,000.

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.

During the six months ended December 31, 2021 the Company purchased $395,837 ($449,661 – 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 six months ended December 31, 2021 and 2020 the Company purchased $365,545 and $661,467 respectively of these services, of which $29,243 (2021) and $52,917 (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 December 31, 2021, the Company had cash of approximately $14.2 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 11% of trade receivables at December 31, 2021 (nil - December 31, 2020.

At December 31, 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 December 31, 2021, $2,179,474 (June 2021-$1,212,194) of accounts receivable was past due based on contractual terms but not impaired.

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

	December 31, 2021	**June 30, 2021**
	Gross	Gross
Not past due	$ 1,699,079	$ 1,664,797
Past due 1-30 days	1,146,783	849,700
Past due 31-90 days	225,176	47,180
Past due 90+ days	874,664	315,314
	$3,945,702	$ 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% (60%-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 December 31, 2021, the Company had U.S. dollar denominated cash of approximately US$ 1,313,626 (2020: $953,740) and U.S. dollar denominated net assets of approximately US$3,038,332 (2020-$5,471,959). The remaining amounts were denominated in Canadian dollars. Gains and losses arising upon translation of these amounts into

Canadian dollars for inclusion in the interim condensed consolidated financial statements are recorded in other income and expenses as foreign exchange.

A 5% strengthening of the U.S. dollar versus the Canadian dollar, at December 31, 2021, would have increased the foreign exchange gain for the period by approximately $152,000 (2020: $274,000) 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, 123,846,100 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	123,846,100
Stock Options	6,819,000

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;

	Six months ended December 31,		Three Months Ended December 31,	
	2021	2020	2021	2020
	$	$	$	$
Net (loss) gain	(5,819,703)	(7,072,129)	(4,151,930)	(3,123,093)
Finance expense	131,715	2,377,386	68,832	1,182,181
Fair value adjustment	-	1,001,626	-	219,626
Depreciation and amortization	519,200	652,683	258,694	466,885
Share-based payments	888,217	813,036	392,293	186,060
Current income tax expense	(45,126)	-	(34,855)	22,563
Foreign exchange (gain) loss	(573,884)	886,599	(136,724)	501,178
Adjusted EBITDA	**(4,899,581)**	**(1,340,799)**	**(3,603,690)**	**(544,600)**

Adjusted EBITDA for the three months ended December 31, 2021 was $(3.6) million, compared to $(.5) million for the same period in the prior year. For the six months ended December 31, 2021 adjusted EBITDA stood at $(4.8) million compared to (1.3) 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.