LUFF ENTERPRISES LTD.

Management's Discussion and Analysis
For the Three Months Ended March 31, 2022

(Stated in Canadian Dollars)

Dated May 19, 2022

This Management's Discussion and Analysis (MD&A) for Luff Enterprises Ltd. ("Luff", "Luff Brands", the "Company", the "Corporation", "we", "us" or "our") was prepared as of May 19, 2022 to assist readers in understanding our financial performance for the three months ended March 31, 2022. This MD&A should be read in conjunction with the accompanying unaudited condensed interim consolidated financial statements for the three months ended March 31, 2022 and the notes contained therein. In addition, this MD&A should be read in conjunction with our MD&A and audited consolidated financial statements for the year ended December 31, 2021, which were prepared in accordance with International Financial Reporting Standards (IFRS) and presented in Canadian dollars, our functional currency.

This MD&A contains forward-looking statements. Please see "Note Regarding Forward-Looking Statements" for a discussion of the risks, uncertainties and assumptions used to develop our forward-looking statements. Accounting principles applied under IFRS require us to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We believe our estimates and assumptions are reasonable based on the information available at the time that these estimates and assumptions are made. Actual results may differ from these estimates.

Our head office is located at Suite 800 - 543 Granville Street, Vancouver, British Columbia V6C 1X8. The Board of Directors approved the content of this MD&A on May 19, 2022.

Additional information on Luff, including our most recently filed audited consolidated financial statements, is available on the System for Electronic Document Analysis and Retrieval (SEDAR) website at www.sedar.com.

Business Overview

We manufacture and distribute hemp based Cannabidiol ("CBD") wellness products in the United States through two brands on our innovative e-commerce platforms. We focus on formulations leveraging unique cannabinoids, such as CBG and CBN; and boost them with superfood ingredients. We believe the presence of these various compounds and unique cannabinoids work synergistically to heighten the effects of the products, making them superior to single-compound CBD products. Our products include tinctures, gummies, topicals, and capsules.

Our hemp extracts are produced from hemp, which is defined in the United States's 2018 Farm Bill as the plant Cannabis sativa L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol ("THC") concentration of not more than 0.3 percent on a dry weight basis. We do not produce or sell medicinal or recreational marijuana products derived from high-THC Cannabis/marijuana plants. Hemp products have no psychoactive effects.

Our common shares trade on the Canadian Securities Exchange under the symbol "**LUFF**".

Overall Performance and Strategy

The first quarter of 2022 continued to be a transition period for the Company. After completing the sale of our Nevada manufacturing facility in December 2021, we downsized our operations footprint in Oregon in early 2022. These initiatives allowed us to significantly reduce our outstanding debt and increase our cash and working capital balances. These initiatives will also significantly reduce our operating expenses and overhead going forward.

With the above changes in our business, we also temporarily reduced expenditures on sales and marketing to conserve cash as we work to execute on a new strategic direction in 2022. As a result, and similar to Q4 2021, we continued to generate very modest sales revenue in the first quarter of 2022.

Our key strategic initiatives for the remainder of 2022 are to further expand our online sales channels in the United States and to launch a new online sales initiative in Canada. To achieve this, we are actively pursuing opportunities to acquire an existing licensed producer in Canada. We are also pursuing opportunities to establish an online wellness marketplace. This aligns with our vision of providing high-quality wellness products that empower the lives of our customers.

Our direct-to-consumer business model will allow us to connect growers and product manufacturers to users, providing better selection and fresh product at great prices. This will result in higher gross margins and efficiencies. This model will also include implementing new and expanded direct-to-consumer marketing campaigns to bring awareness to our brands and product offerings.

Through the successful execution of our strategy, our ultimate goal is to become the premier online cannabis dispensary in North America.

Selected Financial Data

The following table displays a summary of our consolidated statements of operations for the three months ended March 31, 2022 and 2021 and a summary of select balance sheet data as at March 31, 2022 and December 31, 2021.

Three Months Ended $	**March 31 2022**	March 31 2021
Revenue	**19,832**	70,598
Gross profit	**(17,958)**	23,153
Operating expenses	**475,804**	888,182
Other expense (income), net	**63,784**	(48,100)
Net loss	**(557,546)**	(831,329)
Loss per share – basic and diluted	**(0.00)**	(0.00)

As at $	**March 31 2022**	**Dec 31 2021**
Assets		
Cash and cash equivalents	**3,183,997**	3,880,602
Total assets	**6,494,164**	7,251,489
Liabilities		
Current liabilities	**171,456**	340,733
Long-term liabilities	**429,221**	427,339
Total liabilities	**600,677**	768,072
Shareholders' equity	**5,893,487**	6,483,417

Results of Operations

Revenue and gross profit

Revenue in Q1 2022 was slightly lower than in the previous quarter ended December 31, 2021 as well as the same period in the prior year, however, fell sharply from the revenue reported in the quarters ended June 30, 2021 and September 30, 2021. Several reasons accounted for the decline, including: (i) the downsizing of our Oregon facility and the sale of our Nevada operations in late 2021, (ii) very limited sales initiatives were executed in the past six months due to limited cash resources and our change in strategy, and (iii) loss of a large customer that had originally commenced purchases from us in Q3 2021.

Due to the limited revenue in Q1 2022, we generated a negative gross margin of $18 thousand during the quarter.

Operating expenses

Three months ended $	March 31 2022	March 31 2021
General and Administrative		
Personnel	**191,878**	209,120
Professional fees	**125,627**	58,283
Other operating expenses	**46,244**	151,296
	363,749	418,699
Sales and Marketing		
Personnel	**-**	94,921
Advertising, promotions and selling costs	**59,285**	40,557
	59,285	135,478

General and administrative expenses declined in the first quarter of 2022, primarily due to lower operating expenditures and overhead requirements following the sale of our Nevada facility and downsizing of our facility in Oregon. We anticipate that our general and administrative expenses will decline further throughout the remainder of fiscal 2022 as we were still incurring higher levels of general and administrative costs in our US operations during a portion of Q1 2021, prior to the downsizing.

Sales and marketing expenditures decreased considerably in the first quarter of 2022 from the prior year. Through the downsizing of our operations in the United States, we significantly curtailed sales and marketing expenditures in the short term to conserve cash while we pursue a new strategic direction in 2022.

Share based compensation expense declined to just $6 thousand for the three months ended March 31, 2022 from $57 thousand in 2021. The expense primarily related to restricted share units issued to key employees and directors in the prior year.

Depreciation and amortization expense declined to $47 thousand in Q1 2022 from $0.3 million in the prior year. The decline was due to the sale of our Nevada facility and assets in Q4 2021 and reclassification of our property, plant and equipment in Oregon to assets held for sale. We are currently pursuing a sale of the majority of our equipment and other long-lived assets located in Oregon.

Other expenses (income)

Other expenses (income) for the quarter ended March 31, 2022 was $64 thousand, which primarily consisted of a loss on foreign exchange of $91 thousand related to the revaluation of loan receivable and cash and cash equivalents denominated in USD. At March 31, 2022, our loan receivable as well as cash and cash equivalents of USD $2.4 million were denominated in USD. This loss was partially offset by interest and other income generated from our loan receivable.

Other (income) expenses for the comparative quarter ended March 31, 2021 was a gain of $48 thousand, which was primarily due to a gain on foreign exchange.

Net loss

Our net loss of $0.6 million for the three months ended March 31, 2022 compared favourably to our net loss of $0.8 million recognized in Q1 2021. This year-over-year improvement was primarily due to a reduction in our operating expenses in 2022.

Summary of Quarterly Data

Quarter ended $ (000's, except per share)	**Mar 2022**	Dec 2021	Sept 2021	June 2021	Mar 2021	Dec 2020	Sept 2020	June 2020
Revenue[1]	**20**	30	374	209	70	16	-	-
Net (loss) income	**(558)**	651	(806)	(1,410)	(831)	(1,465)	(354)	(1,955)
(Loss) income per share[2]	**(0.00)**	0.00	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.01)

Note: (Loss) income per share represents both basic and diluted income (loss) per share. Quarterly income (loss) per share is not additive and may not equal the annual loss per share reported. This is due to the effect of rounding as well as shares issued during the year on the basic weighted average number outstanding.

The past 8 fiscal quarters represented a transition and rebuilding period for our Company. As the Company was released from CCAA in May 2020, we immediately started implementing a new business plan to focus our efforts in the CBD consumer-packaged goods ("CPG") segment capable of servicing the food, drug, and mass retail channel, as well as nationally via e-commerce. Due to these efforts, our revenue began to increase beginning in the fourth quarter of 2020 until Q3 2021. However, in Q4 2021 and Q1 2022, our revenue fell sharply for several reasons, including: (i) our plan initiated to significantly downsize our Oregon facility and complete the sale of our Nevada operations, (ii) very limited sales initiatives were implemented in Q4 2021 and Q1 2022 due to limited cash resources and our change in strategy, and (iii) loss of a large customer that had originally commenced purchases from us in Q3 2021.

Due to the relatively low sales generated over the past 8 quarters, our revenue and gross profit was not sufficient to cover our operating expenditures and resulted in net losses being reported in 7 of the past 8 fiscal quarters. We generated net income of $0.7 million in Q4 2021 due to a $1.1 million gain on the sale of our Nevada facility, which was sold for proceeds of $6.5 million in December 2021.

Financial Condition and Liquidity

As at $	**March 31** **2022**	Dec 31 2021
Current assets	**5,359,141**	6,061,425
Total assets	**6,494,164**	7,251,489
Current liabilities	**171,456**	340,733
Total liabilities	**600,677**	768,072
Shareholders' equity	**5,893,487**	6,483,417
Working capital[1]	**5,187,685**	5,720,692
Three months ended	**March 31** **2022**	March 31 2021
Cash flows used in operating activities	**(569,810)**	(1,025,695)
Cash flows used in investing activities	**-**	(64,947)
Cash flows (used in) from financing activities	**(47,955)**	118,307

Note: (1) Working capital is defined as current assets less current liabilities

Working capital

Our working capital position declined to $5.2 million at March 31, 2022 from $5.7 million at December 31, 2021. The $0.5 million decrease was primarily due to the net loss incurred in Q1 2022. At March 31, 2022, our cash position was $3.2 million compared to $3.9 million at December 31, 2021.

Based on our strong cash and working capital position at March 31, 2022, we believe we have capital sufficient to fund our operating expenditures and pursue our growth objectives for the foreseeable future. However, our ability to fund our future operating expenses and capital expenditures will continue to depend on our future operating performance which will be affected by general economic, financial, regulatory, FDA, and other factors including factors beyond the Company's control (See "Risks and Uncertainties").

Cash used in operating activities

Cash used in operating activities during the three months ended March 31, 2022 was $0.6 million (2021 - $1.0 million). In both Q1 2022 and the comparative quarter in 2021, we did not generate sufficient revenue and gross profit to cover our operating expenses. Late in fiscal 2021 and year-to-date in 2022, we have worked to significantly reduce our operating expenditures related to our operations in the United States. These reductions included the sale of our Nevada facility in December 2021 and the significant downsizing of our manufacturing operations in Oregon in early 2022.

These initiatives will allow us to further reduce our operating expenses and overhead going forward, while we focus our efforts on our core strategy of building out our online sales channels through our e-commerce platforms.

Cash from investing activities

Net cash from investing activities was $nil for the three months ended March 31, 2022 as we did not incur any capital expenditures during the quarter.

Cash from financing activities

Net cash used in financing activities was $48 thousand for the three months ended March 31, 2022, which consisted of principal repayments on our right of use lease liability. In the comparative quarter ended March 31, 2021, we received debt proceeds of $0.2 million, partially offset by repayments on the right of use lease liability.

Our only remaining long-term debt at March 31, 2022 consists of a convertible debenture with a principal balance of $438,000. The convertible debenture is owing to a company controlled by Drew Malcolm, a director and shareholder of the Company, bears interest at a coupon rate of 6.0% per annum and matures on May 23, 2023. The convertible debenture is convertible into 17,520,000 common shares at the election of the holder at any time and, at the Company's election, during any period where the 20-day weighted average trading price of our common shares is $0.10 or greater.

Shareholders' Equity

Shareholders' equity decreased to $5.9 million at March 31, 2022 from $6.5 million at December 31, 2021. The statements of shareholders' equity included in the accompanying consolidated financial statements for the three months ended March 31, 2022 provide a schedule showing changes to all of the components of shareholders' equity during the period. The decrease of $0.6 million was primarily attributable to the net loss incurred for the quarter of $0.6 million as well as foreign currency translation adjustments.

Related Party Transactions

Three months ended $	March 31 2022	March 31 2021
Key management personnel compensation		
Wages and benefits and management fees	**76,443**	245,076
Directors' fees	**24,000**	27,000
Stock based compensation	**5,813**	57,000
	106,256	329,076

For the three months ended March 31, 2022, we defined key management personnel as being the Chief Executive Officer, Chief Financial Officer, and Chief Operations Officer. The amounts disclosed in the table above are the amounts recognized as an expense related to key management personnel and directors during the respective reporting periods.

During the three months ended March 31, 2022, we incurred interest expense of $6,568 (three months ended March 31, 2021 - $6,568) related to a convertible debenture owing to a director and shareholder of the Company.

Transactions with related parties are in the normal course of operations and are initially recorded at the exchange amount.

Outstanding Share Data

	May 19 2022	March 31 2022
Common Shares outstanding	**431,539,032**	431,539,032

As at May 19, 2022, we also had outstanding:

(i) Warrants to acquire 27,656,000 common shares of the Company at an exercise price of $0.05 per share;
(ii) Warrants to acquire 12,000,000 common shares of the Company at an exercise price of $0.025 per share;
(iii) Stock options exercisable into 400,000 common shares of the Company at a price of $0.02 per share; and
(iv) A convertible debenture in the principal amount of $438,000 that is convertible into 17,520,000 common shares of the Company.

Risks and Uncertainties

Our business is subject to certain risks and uncertainties. Prior to making any investment decisions regarding Luff Brands, investors should carefully consider, among other things, the risks described herein and in the "Risks and Uncertainties" section of our MD&A for the year ended December 31, 2021, which is incorporated by reference herein. These risks and uncertainties are not exhaustive. Additional risks presently known or currently deemed immaterial may also impair our business operations. If any of the events described in the following business risks actually occur, our overall business, operating results and financial condition could be materially adversely affected.

Note Regarding Forward-Looking Statements

Certain statements in this MD&A, including statements or information containing terminology such as "anticipate", "believe", "intend", "expect", "estimate", "may", "could", "will", and similar expressions constitute "forward-looking statements" within the meaning of applicable Canadian securities legislation. All statements, other than statements of historical fact, that address activities, events, or developments that we or a third party expect or anticipate will or may occur in the future, including our future growth, results of operations, performance, and business prospects and opportunities are forward-looking statements.

These forward-looking statements reflect our current beliefs and are based on information currently available to us. These statements require us to make assumptions we believe are reasonable and are subject to inherent risks and uncertainties. Actual results and developments may differ materially from the anticipated results and developments discussed in the forward-looking statements as certain of these risks and uncertainties are beyond our control. These risks include several of the factors discussed further under "Risks and Uncertainties" above. These risk factors are interdependent and the impact of any one risk or uncertainty on a particular forward-looking statement is not determinable.

Examples of forward-looking statements in this MD&A and the key assumptions and risk factors involved in such statements include, but are not limited to, executing our strategic initiatives for 2022, which includes building out our online sales channels, expanding our business into Canada and pursuing opportunities to acquire an existing licensed producer in Canada. The successful execution of these initiatives is subject to a number of risks and uncertainties, including our ability to successfully acquire an existing licensed producer in Canada, industry competition, and future customer demand for our products, among others.

Consequently, all of the forward-looking statements made in this MD&A are qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments will be realized or, even if substantially realized, that they will have the expected effects on Luff. These forward-looking statements are made as of the date of this MD&A. Except as required by applicable securities legislation, we assume no obligation to update publicly or revise any forward-looking statements to reflect subsequent information, events, or circumstances.

Additional information

Additional information relating to the Company is available on SEDAR at www.sedar.com.

Corporation information

Registered Office:	Suite 800 – 543 Granville Street, Vancouver, BC V6C 1X8
Directors:	Jeremy South Philip Campbell Drew Malcolm
Senior Officers:	Philip Campbell, Chief Executive Officer Jason Vandenberg, Chief Financial Officer
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