



LUFF ENTERPRISES LTD.

**Management's Discussion and Analysis
For the Three and Six Months Ended June 30, 2022**

(Stated in Canadian Dollars)

Dated August 26, 2022

Luff Enterprises Ltd.

Management's Discussion and Analysis

For the Three and Six Months Ended June 30, 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 August 26, 2022 to assist readers in understanding our financial performance for the three and six months ended June 30, 2022. This MD&A should be read in conjunction with the accompanying unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 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 August 26, 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 own and operate leading cannabis e-commerce platforms in both Canada and the United States and are dedicated to providing top quality cannabis to informed consumers at affordable pricing. Luff's flagship cannabis marketplace, Herbal Dispatch, is a trusted source for exclusive access to small-batch craft cannabis flower and a wide-array of other product formats.

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

Overall Performance and Strategy

We made significant progress in implementing our strategic growth initiatives during the second quarter and to date in Q3 2022. This included acquiring a national e-commerce platform and a licensed producer in Canada, two critical steps in our strategy to establish the pre-eminent online wellness marketplace in both Canada and the United States.

Our online marketplace strategy will allow us to offer a broader range of competitively priced products while capturing intermediary margins by selling directly to the final consumer. With the large oversupply of cannabis in Canada and the compression of wholesale prices, we believe this capital efficient, technology focused strategy will allow us to scale up sales quickly and efficiently while capturing strong gross margins.

Luff Enterprises Ltd.

Management's Discussion and Analysis

For the Three and Six Months Ended June 30, 2022

We also plan on implementing several new and expanded direct-to-consumer marketing campaigns to bring awareness to our brands and product offerings as we launch our new online marketplace, Herbal Dispatch.

Acquisition of Licensed Producer

In August 2022, we completed the acquisition of the National Green Biomed group of companies ("NG Biomed"). NG Biomed is a licensed producer of cannabis products for both the recreational and medical consumer markets. This acquisition allowed us to accelerate our launch of online sales in Canada and establish a new online wellness marketplace in Canada.

The acquisition of NG Biomed was effected by way of a three-cornered amalgamation in accordance with the provisions of the Business Corporations Act (British Columbia) whereby the securityholders and certain creditors of NG Biomed were issued 161,025,193 common shares in Luff. We will also pay cash consideration of up to \$224,370 to certain shareholders of NG Biomed that had a right of rescission related to their investment in NG Biomed. In conjunction with the acquisition, we also assumed \$500,000 in debt and up to a maximum of \$200,000 in other net liabilities.

In conjunction with the acquisition, we also assumed 6,172,001 warrants with each warrant being exercisable to acquire one common share of Luff at a price of \$0.15 per share until December 31, 2023.

Upon closing of the acquisition, the Company also appointed the Honourable Herb Dhaliwal, NG Biomed's Chairman, to Luff's Board of Directors. Mr. Dhaliwal is a former member of Parliament and Minister of National Revenue, Minister of Fisheries & Oceans and Minister of Natural Resources. He is the former Vice-Chair of BC Hydro Power and Authority.

Acquisition of Herbal Dispatch

On August 23, 2022, we acquired 1192515 BC Ltd., the owner of herbaldispatch.com, a leading Canadian online dispensary brand ("Herbal Dispatch"). Assets included in the acquisition are Herbal Dispatch's website domains, trademarks, and user database. This database contains age-verified, Canadian-resident cannabis consumers, and has more than a 100,000+ profiles, including over 60,000 active subscribers. Pursuant to the terms of the acquisition, we acquired 100% of the issued and outstanding shares of 1192515 BC Ltd. (the "Transaction") in exchange for Luff common shares, based on a milestone structure linked to quarterly revenue targets.

Highlights of the Transaction:

- We became the 100% owner and operator of herbaldispatch.com, a leading Canadian cannabis e-commerce platform, with a large data base of cannabis customers;
- The Transaction consideration consisted of common shares based on revenue milestones, thereby mitigating risk for our shareholders;
- Herbal Dispatch has an historically engaged customer base. Prior operating data shows an average of 7 repeat orders per customer;
- Goal is to maximize profit margins by selling directly from growers and product manufacturers to registered herbaldispatch.com members; and

Luff Enterprises Ltd.

Management's Discussion and Analysis

For the Three and Six Months Ended June 30, 2022

- Membership on herbaldispatch.com is free - simply sign-up online and go through a short health assessment (via videoconference) with a registered healthcare practitioner on a smartphone or computer.

Consideration for the acquisition consisted of the issuance of 140,000,000 common shares of Luff with 20,000,000 of those common shares distributed to the shareholders of Herbal Dispatch at closing. The remaining 120,000,000 common shares are being held in escrow and will be distributed following the achievement of certain milestone events during the four-year period after completion of the Transaction as follows:

- 30,000,000 common shares of Luff upon gross sales in Canada reaching \$300,000 in a three-month consecutive period;
- 40,000,000 common shares of Luff upon gross sales in Canada reaching \$750,000 in a three-month consecutive period; and
- 50,000,000 common shares of Luff upon gross sales in Canada reaching \$1,500,000 in a three-month consecutive period.

We are very pleased to revive the storied Herbal Dispatch brand with its strong track record of outstanding customer service. Our research shows a continued gap in the market for a marketplace offering great customer service and outstanding curated products. We particularly look forward to working with the Herbal Dispatch team to significantly expand our business in Canada, increase our presence and grow sales in Canada and the United States, as well as open up developing markets where e-commerce of cannabis products provides a compelling market opportunity.

The Transaction was not an arm's length transaction for purposes of the policies of the Canadian Securities Exchange ("CSE") as certain directors and officers of Luff are minority shareholders in 1192515 BC Ltd. Therefore, the Transaction was a related party transaction under Multilateral Instrument 61-101. For the Transaction, Luff relied on the exemptions contained in sections 5.5(a) and 5.7(a), respectively, of Multilateral Instrument 61-101 from the valuation and minority shareholder requirements of that instrument as they apply to related party transactions since the fair market value of the acquisition was less than 25% of the market capitalization of Luff. The acquisition of Herbal Dispatch was approved by the board upon recommendation of the independent director in accordance with the Company's related-party transaction policy. Those certain directors and officers of Luff who are also minority shareholders of Herbal Dispatch did not vote on the Transaction.

Sale of Oregon Assets

In July 2022, we entered into a definitive agreement to sell certain assets and licenses at our Portland, Oregon facility for cash consideration of USD \$120 thousand. We plan to continue to sell branded and private label CBD products in the United States using our network of partners. This transaction is expected to close in September 2022.

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

Luff Enterprises Ltd.

Management's Discussion and Analysis

For the Three and Six Months Ended June 30, 2022

Selected Financial Data

The following table displays a summary of our consolidated statements of operations for the three and six months ended June 30, 2022 and 2021 and a summary of select balance sheet data as at June 30, 2022 and December 31, 2021.

	Three Months Ended		Six Months Ended	
	June 30 2022	June 30 2021	June 30 2022	June 30 2021
Revenue	9,339	208,949	29,171	279,547
Gross profit	791	80,331	(17,167)	103,484
Operating expenses	384,149	1,269,310	859,953	2,157,492
Other expense (income), net	953,235	219,688	1,017,019	171,588
Net loss	(1,373,570)	(1,409,717)	(1,931,116)	(2,241,046)
Loss per share – basic and diluted	(0.00)	(0.00)	(0.00)	(0.01)

As at	June 30 2022	Dec 31 2021
Assets		
Cash and cash equivalents	2,910,986	3,880,602
Total assets	5,152,717	7,251,489
Liabilities		
Current liabilities	608,255	340,733
Long-term liabilities	-	427,339
Total liabilities	608,255	768,072
Shareholders' equity	4,544,462	6,483,417

Results of Operations

Revenue and gross profit

Revenue for the three and six months ended June 30, 2022 fell sharply from the revenue reported in the comparative periods in 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, and (ii) very limited sales initiatives executed in the past six months as we focused on implementing our new online sales strategy.

Due to the limited revenue in 2022, we generated a negative gross margin of \$17 thousand during the six months ended June 30, 2022.

Luff Enterprises Ltd.

Management's Discussion and Analysis

For the Three and Six Months Ended June 30, 2022

Operating expenses

	Three Months Ended		Six Months Ended	
	June 30 2022	June 30 2021	June 30 2022	June 30 2021
General and Administrative				
Personnel	111,845	267,717	303,723	449,837
Professional fees	99,579	149,193	225,206	207,476
Other operating expenses	46,656	109,554	92,900	287,850
	258,080	526,464	621,829	945,163
Sales and Marketing				
Personnel	-	12,952	-	37,952
Advertising, promotions and selling costs	87,063	331,837	146,348	442,315
	87,063	344,789	146,348	480,267

General and administrative expenses declined in the first six months 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.

Sales and marketing expenditures decreased considerably for the three and six months ended June 30, 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 pursued our new strategic initiatives for 2022.

Share based compensation expense declined to negative \$10 thousand and negative \$4 thousand, respectively, for the three and six months ended June 30, 2022. In Q2 2022, we cancelled all outstanding restricted share units that had not yet vested, which resulted in a recovery of previously recognized share based compensation expense. The share based compensation expense reported in 2021 primarily related to restricted share units issued to key employees and directors in the prior year.

Depreciation and amortization expense declined to \$49 thousand and \$96 thousand (2021 - \$0.2 million and \$0.4 million), respectively, for the three and six months ended June 30, 2022. 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.

Luff Enterprises Ltd.

Management's Discussion and Analysis

For the Three and Six Months Ended June 30, 2022

Other expenses (income)

Other expenses (income) for the three and six months ended June 30, 2022 increased significantly from the prior year. In Q2 2022, we incurred an impairment charge in the amount of \$1.1 million related to our assets located in Portland, Oregon. As discussed above, in July 2022, we entered into a definitive agreement to sell certain assets and licenses at our Portland Oregon facility for cash consideration of USD \$120 thousand. This transaction is expected to close in September 2022. Of the impairment charge reported, \$0.9 million related to equipment and leasehold improvements and \$0.1 million related to inventory.

During the three months ended June 30, 2022, we also incurred a gain on foreign exchange in the amount of \$0.1 million (six months ended June 30, 2022 – gain of \$39 thousand). The gain related to the revaluation of our loan receivable and cash and cash equivalents denominated in USD at June 30, 2022.

Net loss

Our net loss of \$1.4 million for the three months ended June 30, 2022 was consistent with our net loss of \$1.4 million recognized in Q2 2021. Contributing to a slightly lower net loss was a substantial reduction in operating expenses in Q2 2022, offset by an impairment of assets charge of \$1.1 million. Likewise, our net loss for the six months ended June 30, 2022 improved to \$1.9 million from a loss of \$2.2 million in the prior year.

Summary of Quarterly Data

Quarter ended \$ ('000's, except per share)	June 2022	Mar 2022	Dec 2021	Sept 2021	June 2021	Mar 2021	Dec 2020	Sept 2020
Revenue	9	20	30	374	209	70	16	-
Net (loss) income	(1,374)	(558)	651	(806)	(1,410)	(831)	(1,465)	(354)
(Loss) income per share ⁽¹⁾	(0.00)	(0.00)	0.00	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)

Note 1: (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 in the first two quarters of 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 over the past year due to limited cash resources and our change in strategy to focus on our new online marketplace strategy.

Luff Enterprises Ltd.

Management's Discussion and Analysis

For the Three and Six Months Ended June 30, 2022

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	June 30 2022	Dec 31 2021
Current assets	5,124,954	6,061,425
Total assets	5,152,717	7,251,489
Current liabilities	608,255	340,733
Total liabilities	608,255	768,072
Shareholders' equity	4,544,462	6,483,417
Working capital ⁽¹⁾	4,516,699	5,720,692
Six months ended	June 30 2022	June 30 2021
Cash flows used in operating activities	(883,741)	(1,429,283)
Cash flows used in investing activities	(12,535)	(59,999)
Cash flows used in financing activities	(99,470)	(69,761)

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

Working capital

Our working capital position declined to \$4.5 million at June 30, 2022 from \$5.7 million at December 31, 2021. The \$1.2 million decrease was primarily due to the net loss incurred in year-to-date in 2022 as well as the classification of \$0.4 million of loans payable as a current liability at June 30, 2022, which matures in May 2023. At June 30, 2022, our cash position was \$2.9 million compared to \$3.9 million at December 31, 2021.

Based on our strong cash and working capital position at June 30, 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").

Luff Enterprises Ltd.

Management's Discussion and Analysis

For the Three and Six Months Ended June 30, 2022

Cash used in operating activities

Cash used in operating activities during the six months ended June 30, 2022 was \$0.9 million (2021 - \$1.4 million). In both 2022 and the comparative six months 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 have allowed 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 used in investing activities

Net cash used in investing activities was \$13 thousand for the six months ended June 30, 2022 as we incurred expenditures related to license renewals in the United States.

Cash used in financing activities

Net cash used in financing activities was \$99 thousand for the six months ended June 30, 2022, which consisted of principal repayments on our right of use lease liability. In the comparative six months ended June 30, 2021, we incurred repayments on the right of use lease liability of \$80 thousand.

Our only remaining loans payable at June 30, 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 \$4.5 million at June 30, 2022 from \$6.5 million at December 31, 2021. The statements of shareholders' equity included in the accompanying consolidated financial statements for the six months ended June 30, 2022 provide a schedule showing changes to all of the components of shareholders' equity during the period. The decrease of \$2.0 million was primarily attributable to the net loss incurred for the six-month period of \$1.9 million.

Luff Enterprises Ltd.

Management's Discussion and Analysis

For the Three and Six Months Ended June 30, 2022

Related Party Transactions

	Three Months Ended		Six Months Ended	
	June 30 2022	June 30 2021	June 30 2022	June 30 2021
Key management personnel compensation				
Wages and benefits and management fees	57,392	288,933	133,836	534,009
Directors' fees	24,000	27,000	48,000	54,000
Stock based compensation	(5,813)	228,000	-	285,000
	75,579	543,933	181,836	873,009

For the three and six months ended June 30, 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 and six months ended June 30, 2022, we incurred interest expense of \$6,568 and \$13,136 (three and six months ended June 30, 2021 - \$6,568 and \$13,136), respectively, 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

	August 26 2022	June 30 2022
Common Shares outstanding	733,187,925	431,872,932

As at August 26, 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) Warrants to acquire 6,172,001 common shares of the Company at an exercise price of \$0.15 per share;
- (iv) Stock options exercisable into 400,000 common shares of the Company at a price of \$0.02 per share;
- (v) Convertible debentures in the principal amount of \$500,000 that are convertible into 20,000,000 common shares of the Company; and
- (vi) A convertible debenture in the principal amount of \$438,000 that is convertible into 17,520,000 common shares of the Company.

Luff Enterprises Ltd.

Management's Discussion and Analysis

For the Three and Six Months Ended June 30, 2022

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 and expanding our business into Canada. The successful execution of these initiatives is subject to a number of risks and uncertainties, including 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.

Luff Enterprises Ltd.

Management's Discussion and Analysis

For the Three and Six Months Ended June 30, 2022

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 Herb Dhaliwal
Senior Officers:	Philip Campbell, Chief Executive Officer Jason Vandenberg, Chief Financial Officer
Auditor:	Kingston Ross Pasnak LLP Suite 1500, 9888 Jasper Avenue NW Edmonton, Alberta, T5J 5C6
Transfer Agent:	National Securities Administrators Ltd. 702 – 777 Hornby Street Vancouver, BC, V6Z 1S4