HERBAL DISPATCH INC.
(formerly Luff Enterprises Ltd.)

Management's Discussion and Analysis
For the Year Ended December 31, 2022

(Stated in Canadian Dollars)

Dated April 24, 2023

This Management's Discussion and Analysis (MD&A) for Herbal Dispatch Inc., formerly Luff Enterprises Ltd. ("Herbal Dispatch", the "Company", the "Corporation", "we", "us" or "our") was prepared as of April 24, 2023 to assist readers in understanding our financial performance for the year ended December 31, 2022. This MD&A should be read in conjunction with the accompanying audited consolidated financial statements for the year ended December 31, 2022, 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 1750 – 1055 West Georgia Street, Vancouver, British Columbia V6E 3P3. The Board of Directors approved the content of this MD&A on April 24, 2023.

Additional information on Herbal Dispatch, 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 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 ("CSE") under the symbol "**HERB**".

We were originally incorporated with the name Ascent Industries Corp. under the Business Corporations Act (British Columbia) on May 30, 2013. We completed an amalgamation with Paget Minerals Corp. on August 9, 2018 and subsequently listed our common shares for trading on the CSE. Effective May 15, 2020, we changed our name to Luff Enterprises Ltd. and on January 20, 2023, we changed our name to Herbal Dispatch Inc. The name change to Herbal Dispatch Inc. will allow us to realize the many synergies and benefits that come with aligning our name with the positive brand of Herbal Dispatch and our new flagship e-commerce website, **herbaldispatch.com**.

Corporate Highlights

- In January 2022, we downsized our operations in Oregon, USA. The downsizing allowed us to further reduce our operating expenses and overhead, while we refocused our efforts on our core strategy of building out our online sales channels through our innovative e-commerce platforms. 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 closed in two phases with the first phase closing in July 2022 and the second phase closing in November 2022. Furthermore, in early 2023, we discontinued the sale of CBD products in the United States as we shifted our focus to be 100% in Canada. We currently have no active operations remaining in the United States.

- On August 13, 2022, we acquired the National Green Biomed group of companies ("NG Biomed"). NG Biomed's wholly owned subsidiary, Rosebud Productions Inc., is a licensed producer of cannabis products for both the recreational and medical consumer markets and allowed us to accelerate our launch of online sales in Canada.

- On August 13, 2022, we appointed the Honourable Herb Dhaliwal, NG Biomed's Chairman, to the Company'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.

- On August 23, 2022, we acquired 1192515 BC Ltd., the owner of **herbaldispatch.com**, a leading Canadian online dispensary brand. Pursuant to the terms of the acquisition, we acquired 100% of the issued and outstanding shares of 1192515 BC Ltd. in exchange for common shares, based on a milestone structure linked to quarterly revenue targets.

- On September 27, 2022, we commenced sales on the cannabis marketplace **herbaldispatch.com.**

- In December 2022, we commenced the sale of recreational cannabis with direct delivery sales to B-to-B customers in British Columbia.

- On January 20, 2023, we changed our name from Luff Enterprises Ltd. to Herbal Dispatch Inc. and changed our stock symbol to "HERB" to better align our name with our new flagship cannabis marketplace, **herbaldispatch.com**.

- In April 2023, we completed the acquisition of certain assets related to the Golden Spruce cannabis brand. We issued 2,250,000 common shares in consideration for the acquisition. An additional 750,000 common shares are contingently issuable should certain future revenue targets be achieved from the sale of Golden Spruce branded cannabis products.

- In April 2023, we launched the Hero Dispatch marketplace, the second portal created under our affiliate platform. Hero Dispatch provides veterans and first responders access to premium craft cannabis, which are typically funded through their healthcare benefits.

Overall Performance and Strategy

We made significant progress in implementing our strategic growth initiatives in 2022. This included acquiring a national e-commerce platform and a licensed producer in Canada, two critical steps in our strategy to establish a pre-eminent online cannabis marketplace in Canada.

The cannabis industry has undergone massive changes in recent years, which has resulted in a challenging and competitive business environment for all companies involved in the space. Some of these challenges include layers of regulatory burdens, severe taxation, oversupply in the market (leading to price compression) and onerous capital requirements to get to positive cashflow. An online marketplace strategy addresses many of these challenges in a highly scalable, yet capital efficient manner. Furthermore, our strategy is to utilize our growing online marketplace to identify and purchase best in class cannabis products that can be sold in all of our available product channels: direct to consumer (medical), wholesale to retailers (recreational) and bulk sales (domestic & export).

Our vision is to build a customer centric organization that provides the best cannabis to local and international markets. We will achieve this by focusing on four complementary pillars for revenue generation in the years ahead, which will allow us to scale quickly with minimal additional capital required.

Four Pillars for Revenue Growth:

Medical Sales. Medical sales will continue through the **herbaldispatch.com** site and will continue to grow organically, through targeted communications to special groups, such as insured clients and within our growing partnerships with healthcare professionals across Canada. We are also preparing to launch several affiliate websites in partnership with groups that have a large online following and loyal customer base. We plan to leverage all of our in-house digital backend, product inventory, and licensing to streamline the customer onboarding process with minimal additional cost required.

In April 2023, we launched the Hero Dispatch marketplace, the second portal created under our affiliate platform. Hero Dispatch provides veterans and first responders access to premium craft cannabis, which are typically funded through their healthcare benefits. In Canada, eligible veterans and first responders receive coverage for medical cannabis through Veterans Affairs Canada ("VAC") as part of their healthcare benefits. The coverage amount varies by person, but most (60%) are eligible to receive three grams per day at $8.50/g coverage. As of 2021, VAC had reimbursed licensed producers over $150 million for medical cannabis sold to eligible veterans, growing to over $200M in 2022.

Recreational Sales. Recreational sales started in December 2022 when we commenced our first direct delivery orders in BC to B-to-B customers. This program allows us to deliver directly to the roughly 450 private retail stores in the Province of BC. Our aim is to have more than 100 of these retail stores ordering from Herbal Dispatch on a monthly basis by the end of 2023. This B-to-B wholesale opportunity is very complementary to our existing medical business as we are already prepared to manage member orders proficiently, whether they are buyers for dispensary chains or individual clients. Further to the launch of recreational sales in BC, we also plan to enter other provinces in the future to expand our recreational wholesale offering in dispensaries nationally.

Manufacturing Services. Manufacturing sales will play a meaningful role for us moving forward. By offering licensed production services to select vendors/brands, we are building alignment with strategic partners that can add value to Herbal Dispatch's marketplaces. The ability to conduct these services enables us to minimize the cost of select products by spot buying bulk flower and then providing subsequent in-house packaging and processing (such as pre-roll manufacturing) for the Company's and our partners' brands. Having control over certain aspects of manufacturing has proven to lower product costs and increase the quality of Herbal Dispatch's product offering.

Export Sales. Export sales represents a growing opportunity for us and one that shows a lot of promise given the expanding list of countries that have approved federal medical cannabis programs. We are pursuing opportunities for export to several countries that are interested in importing premium grade and craft focused medical cannabis from Canada. With the oversupply and depressed wholesale pricing domestically, this presents a compelling opportunity for high volume sales with strong margin potential.

We anticipate that successfully executing on these initiatives will drive meaningful revenue and profitable growth in the company. Our team is aligned around these goals and we are already seeing many positive results within the first months together since launching Herbal Dispatch. Our customer count is growing steadily and our focus on a differentiated product offering across multiple channels with great customer service is bearing fruit.

We expect that our sales revenue will meaningfully increase in fiscal 2023 as we execute the above growth strategies.

Acquisition of Licensed Producer

On August 13, 2022, we completed the acquisition of 100% of the outstanding shares of the National Green Biomed group of companies ("NG Biomed"). NG Biomed's wholly owned subsidiary, Rosebud Productions Inc., 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 Herbal Dispatch. We also agreed to pay cash consideration of up to $224,370 to certain shareholders of NG Biomed that had a right of recission related to their investment in NG Biomed. In conjunction with the acquisition, we also issued $500,000 in debt and assumed up to a maximum of $200,000 in other net liabilities.

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

Upon closing of the acquisition, the Company appointed the Honourable Herb Dhaliwal, NG Biomed's Chairman, to our 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 1192515 BC Ltd.

On August 23, 2022, we acquired 1192515 BC Ltd., the owner of **herbaldispatch.com**, a leading Canadian online dispensary brand ("1192515"). Assets included in the acquisition were 1192515'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 (the "Transaction") in exchange for our common shares, based on a milestone structure linked to quarterly revenue targets.

Consideration for the acquisition consisted of the issuance of 140,000,000 common shares of Herbal Dispatch with 20,000,000 of those common shares distributed to the shareholders of 1192515 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 Herbal Dispatch upon gross sales in Canada reaching $300,000 in a three-month consecutive period;
- 40,000,000 common shares of Herbal Dispatch upon gross sales in Canada reaching $750,000 in a three-month consecutive period; and
- 50,000,000 common shares of Herbal Dispatch upon gross sales in Canada reaching $1,500,000 in a three-month consecutive period.

Subsequent to December 31, 2022, the gross sales of $300,000 in a three-month consecutive period milestone was achieved.

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 Herbal Dispatch are minority shareholders in 1192515 BC Ltd. Therefore, the Transaction was a related party transaction under Multilateral Instrument 61-101. For the Transaction, we 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 the Company.

The acquisition of 1192515 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 the Company who are also minority shareholders of 1192515 did not vote on the Transaction.

Selected Financial Data

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

Year ended and as at $	**Dec 31 2022**	Dec 31 2021
Net revenue	**318,763**	684,238
Gross profit	**(20,419)**	239,661
Operating expenses	**2,555,876**	3,871,778
Other expense (income), net	**2,001,729**	(1,250,861)
Net loss	**(4,615,001)**	(2,395,752)
Loss per share – basic and diluted	**(0.01)**	(0.01)
Assets		
Cash and cash equivalents	**1,203,594**	3,880,602
Total assets	**7,942,158**	7,251,489
Liabilities		
Current liabilities	**1,208,043**	340,733
Long-term liabilities	**457,033**	427,339
Total liabilities	**1,665,076**	768,072
Shareholders' equity	**6,277,082**	6,483,417

Results of Operations

Revenue and gross profit

Revenue for the year ended December 31, 2022 declined significantly from 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 during the year as we focused on implementing our new online sales strategy in Canada.

On September 27, 2022, we commenced sales in Canada on the recently acquired cannabis marketplace **herbaldispatch.com**. Gross sales from this new platform for the period from September 27, 2022 to December 31, 2022 was $0.2 million.

Gross profit was negative $20 thousand for the year ended December 31, 2022, which compared negatively to gross profit of $0.2 million in fiscal 2021. As discussed above, sales volumes were substantially lower in fiscal 2022 as we wound down sales activities in the United States and ramped up sales in Canada late in the year. As a result of the lower sales volumes, our revenue and gross profit was not able to fully absorb the fixed components of our direct operating costs.

Operating expenses

Year ended $	Dec 31 2022	Dec 31 2021
General and Administrative		
Personnel	**714,593**	1,087,638
Professional fees	**615,113**	594,907
Other operating expenses	**362,565**	406,547
	1,692,271	2,089,092
Sales and Marketing		
Personnel	**76,513**	115,468
Advertising, promotions and selling costs	**563,174**	691,007
	639,687	806,475

General and administrative expenses declined in 2022, primarily due to lower operating expenditures and overhead requirements following the sale of our Nevada facility in 2021 and downsizing of our facility in Oregon in early 2022. Offsetting a portion of the full year decline, however, was an increase in expenses in the 3rd and 4th quarters of 2022 as we worked to launch and then commence sales on our online sales platforms in Canada. Professional fees increased from the prior year as we incurred additional costs related to the acquisitions of NG Biomed and 1192515 in August 2022.

Sales and marketing expenditures decreased for the year ended December 31, 2022 from the prior year. Through the downsizing of our operations in the United States, we significantly curtailed sales and marketing expenditures to conserve cash while we pursued our new strategic initiatives. Following our acquisitions of NG Biomed and 1192515 in August 2022, we again began to incur more significant investments in sales and marketing activities as we prepared to launch our new cannabis marketplace in Canada. As a result, sales and marketing expenditures increased substantially in Q3 and Q4 2022 from the prior year, which offset a large portion of the year-over-year decline.

Share based compensation expense was nominal for the year ended December 31, 2022 as no new options or restricted share units were granted in fiscal 2022. In addition, 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 $0.2 million in 2022 from $0.7 million in fiscal 2021. 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. The depreciation and amortization expense for the year ended December 31, 2022 primarily relates to the amortization of equipment and intangible assets acquired in the acquisitions of NG Biomed and 1192515 as well as equipment and other capital assets acquired post acquisition to support the ramp up of sales activities.

Other expenses (income)

Other expenses (income) for the year ended December 31, 2022 primarily consisted of an impairment charge in the amount of $1.6 million. Of this amount, $1.3 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. Furthermore, early in 2023, we discontinued the sale of CBD products in the United States. Of the impairment charge reported, $0.9 million related to equipment and leasehold improvements, $0.3 million related to inventory associated with our Oregon facility.

In addition, we also incurred an impairment charge of $0.3 million related to a loan receivable from Enhanced Pet Sciences Corp. ("EPS"), a privately held startup company that is developing consumer packaged goods incorporating cannabinoid extracts. The loan receivable is now past due and in default. We continue to work with EPS to obtain a mutually satisfactory settlement of the outstanding balance.

Also included in other expenses (income) was a loss on revaluation of an equity investment in EPS of $0.6 million (2021 – gain of $0.3 million) and a gain on foreign exchange of $0.1 million (2021 – loss of $0.1 million) reflecting the impact of an increase in the value of the US dollar during the year on US denominated assets held by the Company.

In the prior year ended December 31, 2021, we generated net other income of $1.3 million. The income primarily related to: (i) a gain of $1.1 million recognized on the sale of our Nevada facility and assets; (ii) a $0.3 million gain on revaluation of certain investments and (iii) a $0.2 million gain related to the forgiveness of the PayCheck Protection Program loan that we received in early 2021.

Net loss

Our net loss increased to $4.6 million for the year ended December 31, 2022 from $2.4 million in the prior year. The increase was due to changes in other expenses (income), as described above, which changed from income of $1.3 million in fiscal 2021 to an expense of $2.0 million in fiscal 2022. Partially offsetting the higher net loss was lower operating expenditures, share based compensation, and depreciation expense in 2022.

Results of Operations for the Fourth Quarter Ended December 31, 2022

Fiscal Quarter Ended $	**Dec 31 2022**	Dec 31 2021
Net revenue	**188,941**	30,479
Gross profit (loss)	**(30,883)**	(43,676)
Operating expenses	**764,016**	914,396
Other expenses (income), net	**1,110,991**	(1,802,114)
Net (loss) income	**(1,905,890)**	650,970
(Loss) income per share – basic and diluted	**(0.00)**	0.00

Revenue in Q4 2022 increased compared to Q4 2021 as we commenced sales in Canada on the recently acquired cannabis marketplace **herbaldispatch.com** on September 27, 2022. Sales increased incrementally each month throughout the 4th quarter as we executed our sales growth initiatives on the new platform. However, sales volumes were not sufficient in the quarter to absorb the fixed components of our direct operating costs, which resulted in a negative gross profit for the quarter.

Operating expenses declined to $0.8 million in Q4 2022 from $0.9 million in the prior year. We incurred lower operating expenditures and overhead requirements in 2022 following the sale of our Nevada facility in 2021 and downsizing of our facility in Oregon in 2022.

Other expenses (income) in Q4 2022 of $1.1 million primarily consisted of impairment losses on a loan receivable of $0.3 million and inventory located in the United States of $0.2 million as well as a loss on the revaluation of an equity investment in the amount of $0.6 million. The other income of $1.8 million generated in the comparative quarter in 2021 consisted of a gain of $1.1 million recognized on the sale of our Nevada facility in December 2021 as well as a $0.3 million gain on investments that resulted from an increase in the fair value of certain equity investments in the comparative quarter.

Due to the items discussed above, we generated a net loss of $1.9 million in Q4 2022 compared to net income of $0.7 million in Q4 2021.

Summary of Quarterly Data

Quarter ended $ (000's, except per share)	**Dec 2022**	Sept 2022	June 2022	Mar 2022	Dec 2021	Sept 2021	June 2021	Mar 2021
Net revenue	**189**	101	9	20	30	374	209	70
Net (loss) income	**(1,906)**	(778)	(1,374)	(558)	651	(840)	(1,410)	(831)
(Loss) income per share(1)	**(0.00)**	(0.00)	(0.00)	(0.00)	0.00	(0.00)	(0.00)	(0.00)

Note 1: Income (loss) 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 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 first quarter of 2021 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 due to limited cash resources and our change in strategy to focus on our new online marketplace strategy. In Q3, 2022, our revenue once again began to increase as we incurred higher sales volumes in the United States and launched our new online cannabis marketplace in Canada near the end of the quarter. This trend continued in Q4 2022 with sales increasing to $0.2 million from $0.1 million in Q3 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 $	Dec 31 2022	Dec 31 2021
Current assets	**2,114,098**	6,061,425
Total assets	**7,942,158**	7,251,489
Current liabilities	**1,208,043**	340,733
Total liabilities	**1,665,076**	768,072
Shareholders' equity	**6,277,082**	6,483,417
Working capital[(1)]	**906,055**	5,720,692
Year ended	**Dec 31 2022**	**Dec 31 2021**
Cash flows used in operating activities	**(2,620,140)**	(2,959,478)
Cash flows from investing activities	**157,118**	6,359,993
Cash flows used in financing activities	**(213,514)**	(1,414,188)

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

Working capital

Our working capital position declined to $0.9 million at December 31, 2022 from $5.7 million at December 31, 2021. The $4.8 million decrease was due to (i) cash used in operations of $2.6 million in 2022; (ii) the classification of $0.4 million of loans payable as a current liability at December 31, 2022, which matures in May 2023; and (iii) the reclassification of investments and loan receivable with a carrying value of $1.5 million at December 31, 2021 to non-current assets as we no longer anticipate that we will be able to realize on these assets within the next 12 months. At December 31, 2022, our cash position was $1.2 million compared to $3.9 million at December 31, 2021.

Our ability to fund our future operating expenses and capital expenditures will continue to depend on our future operating performance, most notably our ability to achieve sales in the future that are sufficient to cover our operating expenses. Future sales levels will be affected by several factors, including general economic, financial, regulatory factors, including factors beyond the Company's control (See "Risks and Uncertainties"). Based on our cash and working capital position at December 31, 2022, we believe we may need to access additional equity and/or debt financing to support our growth objectives and operating expenditures over the coming year. As we successfully execute on our growth objectives, we anticipate that we will begin to achieve positive cash flow from operations in the future.

Cash used in operating activities

Cash used in operating activities during the year ended December 31 2022 was $2.6 million (2021 - $3.0 million). In both 2022 and in 2021, we did not generate sufficient revenue and gross profit to cover our operating expenses. Late in fiscal 2021 and in 2022, we 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. In early 2023, we discontinued the sale of CBD products in the United States as we shifted our focus to be 100% in Canada. We currently have no active operations remaining in the United States.

These initiatives allowed us to reduce our operating expenses and overhead, while we focused our efforts on our core strategy of building out our online sales channels through our e-commerce platforms. Following the acquisitions of NG Biomed and 1192515 in August 2022, our operating expenses began to increase from previous levels as we worked to accelerate our sales in Canada under our new **herbaldispatch.com** platform.

Cash provided by investing activities

Net cash from investing activities was $0.2 million for the year ended December 31, 2022 as we sold certain assets and licenses at our Portland, Oregon facility for USD $120 thousand during the year.

Cash used in financing activities

Net cash used in financing activities was $0.2 million for the year ended December 31, 2022, which consisted of principal repayments on our right of use lease liability and payments related to consideration payable from the acquisition of NG Biomed.

Our loans payable at December 31, 2022 included a convertible debenture with a principal balance of $438,000. The convertible debenture is owing to a company controlled by 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.

In addition, in conjunction with the acquisition of NG Biomed, we issued new convertible debentures in the principal amount of $500,000. These debentures have an annual coupon rate of 10% per annum, payable monthly, and mature on December 31, 2024. The debentures are also convertible, at the holder's option, into common shares of the Company at $0.025 per share, and at the Company's election, during any period where the trading price of the Company's common shares is $0.05 or greater for a minimum period of 20 consecutive trading days.

Shareholders' Equity

Shareholders' equity decreased to $6.3 million at December 31, 2022 from $6.5 million at December 31, 2021. The statements of shareholders' equity included in the accompanying consolidated financial statements for the year ended December 31, 2022 provide a schedule showing changes to all of the components of shareholders' equity during the year. The decrease of $0.2 million was primarily attributable to the net loss incurred for the fiscal year of $4.6 million, offset by the issuance of common shares in conjunction with the acquisitions of NG Biomed and Herbal Dispatch.

Off-balance Sheet Arrangements

In the normal course of business, we enter into agreements that include indemnities in favour of third parties such as engagement letters with advisors and consultants, and service agreements. We have also agreed to indemnify our directors, officers, and employees in accordance with our articles and bylaws. Certain agreements do not contain any limits on our liability and, therefore, it is not possible to estimate our potential liability under these indemnities. In certain cases, we have recourse against third parties with respect to these indemnities. In addition, we maintain insurance policies that may provide coverage against certain claims under these indemnities.

Related Party Transactions

Year ended $	Dec 31 2022	Dec 31 2021
Key management personnel compensation		
Wages and benefits and management fees	**241,129**	683,609
Fees paid to directors	**105,184**	114,000
Share based compensation	**-**	317,570
	346,313	1,115,179

For the years ended December 31, 2022 and 2021, we defined key management personnel as being the Chief Executive Officer, Chief Financial Officer, and Chief Operations Officer.

During the year ended December 31, 2022, we incurred interest expense of $26,270 (year ended December 31, 2021 - $26,270) 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

	April 24 2023	Dec 31 2022
Common Shares outstanding	**735,797,725**	733,547,725

As at April 24, 2023, 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 6,172,001 common shares of the Company at an exercise price of $0.15 per share;
(iii) Stock options exercisable into 400,000 common shares of the Company at a price of $0.02 per share;
(iv) Convertible debentures in the principal amount of $500,000 that are convertible into 20,000,000 common shares of the Company; and
(v) A convertible debenture in the principal amount of $438,000 that is convertible into 17,520,000 common shares of the Company.

Critical Accounting Estimates

The preparation of our consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Significant judgments, estimates, and assumptions that have the most significant effect on the amounts recognized in the financial statements are described below.

Fair value of financial instruments
The individual fair values attributed to the different components of a financing transaction, notably convertible debt and loans, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

Estimated useful lives and depreciation of property, plant and equipment
Depreciation of property, plant and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Going concern assumption
We exercise judgement in determining our ability to continue to operate for the foreseeable future and to be able to discharge our liabilities in the normal course of business. We assess our current and forecasted cash and working capital balances to make this determination.

Convertible instruments
Convertible notes are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible notes in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

The identification of convertible notes components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

Deferred tax assets
Deferred tax assets, including those arising from tax loss carry-forwards, require us to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on our estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, our ability to realize the net deferred tax assets recorded at the reporting date could be impacted.

Share based payments and warrants
All equity-settled, share based awards and share purchase warrants issued by the Company are fair valued using the Black-Scholes option-pricing model or other fair value techniques. In assessing fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

Leased assets
Leases require assumptions and estimates in order to determine the value of the right of use asset and lease liabilities. Judgement must be applied when determining the implicit and incremental rates of borrowing, as applicable. Judgement must also be applied as to whether renewal options are reasonably certain of being exercised and whether periods covered by an option to terminate are reasonably certain of not being exercised.

Inventory valuation
We have applied judgement in the determination of the net realizable value of our inventory. We estimate net realizable value by estimating selling prices in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale.

Business acquisitions
In a business acquisition, we may acquire assets and assume certain liabilities of an acquired entity. Estimates are made as to the fair value of property, plant and equipment, intangible assets, and goodwill, among other items. In certain circumstances, such as the valuation of property, plant and equipment and intangible assets acquired, we may rely on independent third-party valuators. The determination of these fair values involves a variety of assumptions, including revenue growth rates, expected operating income, discount rates, and earnings multiples.

In a business acquisition, judgment is also exercised in determining whether the transaction meets the definition of a business combination or is an acquisition of assets. We evaluate whether the acquired set of activities and assets includes an input, a process and an output as required under IFRS 3.

Risks and Uncertainties

Our business is subject to certain risks and uncertainties. Prior to making any investment decisions regarding Herbal Dispatch, investors should carefully consider, among other things, the risks described 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.

Industry Competition
The Canadian recreational and medical cannabis market is highly competitive. We face competition from other companies, some of which may have longer operating histories, and more financial resources than Herbal Dispatch. Increased competition by larger and well-financed competitors could materially and adversely affect our business, financial condition, and results of operations. Because of the early stage of the industry in which our Company operates, we expect to face additional competition from new entrants. To remain competitive, we will need to continue to invest in marketing and sales initiatives to promote our products.

The principal factors on which we compete with other Canadian license holders are the quality and variety of cannabis products, the speed with which our product offerings are brought to market, brand recognition, pricing, and product innovation. We believe our focus on providing top quality cannabis to informed consumers at affordable pricing will enable us to grow our business and capture increased market share in Canada.

Given the rapid changes affecting the global, national and regional economies generally and the cannabis industry, in particular, we may not be able to create and maintain a competitive advantage in the marketplace. Our success will depend on our ability to keep pace with any changes in such markets, especially in light of legal and regulatory changes. Our success will also depend on our ability to respond to, among other things, changes in the economy, market conditions, and regulatory and competitive pressures. Any failure to anticipate or respond adequately to such changes could have a material adverse effect on our financial condition, operating results, liquidity, cash flow and operational performance.

Key Officers and Employees
Our success and future growth will depend, to a significant degree, on the continued efforts of the Company's directors and officers to develop the business and manage operations, and on their ability to attract and retain key technical, sales, and marketing staff or consultants. The loss of any key person or the inability to attract and retain new key personnel could have a material adverse effect on the business. Competition for qualified technical, sales, and marketing staff, as well as officers and directors can be intense, and no assurance can be provided that we will be able to attract or retain key personnel in the future. Our inability to retain and attract the necessary personnel could materially adversely affect our business and financial results.

Growth Strategies
Our future depends, in part, on our ability to implement our growth strategy, including growing revenue through (i) medical sales; (ii) recreational sales via direct delivery sales to retailers; (vii) manufacturing services; and (iv) export sales. Our ability to implement this growth strategy depends on, among other things, our ability to market products that appeal to consumers, maintain and expand brand loyalty and brand recognition, maintain and improve competitive position in the markets, identify and successfully enter new geographic areas and segments as well the ability to successfully navigate legislative and regulatory uncertainties.

Domestic Supply Risk
We use only cannabis products with full compliance under federal and provincial regulations to be sold across Canada, and on a limited basis Internationally. The regulation of third-party suppliers may have a significant impact upon the business. Any provincial or federal enforcement activity or any additional uncertainties which may arise in the future, could cause substantial interruption or cessation of the business, including adverse impacts to our supply chain and distribution channels, and other civil and/or criminal penalties at the federal level.

Product Innovation and Consumer Trends
Our business is subject to changing consumer trends and preferences, which is dependent, in part, on continued consumer interest in new products. The success of new product offerings, depends upon several factors, including our ability to (i) accurately anticipate customer needs; (ii) develop new products that meet these needs; (iii) successfully commercialize new products; (iv) price products competitively; (v) deliver products in sufficient volumes and on a timely basis; and (vi) differentiate product offerings from those of competitors.

Effectiveness and Efficiency of Advertising and Promotional Expenditures

Our future growth and profitability will depend on the effectiveness and efficiency of advertising and promotional expenditures, including our ability to (i) create greater awareness for our products; (ii) determine the appropriate creative message and media mix for future advertising expenditures; and (iii) effectively manage advertising and promotional costs to maintain acceptable operating margins. There can be no assurance that advertising and promotional expenditures will result in revenues in the future or will generate awareness of our products. In addition, no assurance can be given that we will be able to manage our advertising and promotional expenditures on a cost-effective basis.

Global Economic Uncertainty

Demand for our products and services is influenced by general economic and consumer trends and regulatory environments beyond our control. There can be no assurance that our business and corresponding financial performance will not be adversely affected by general regulatory economic or consumer trends. In particular, global economic conditions are still tight, and if such conditions continue, recur or worsen, there can be no assurance that they will not have a material adverse effect on our business, financial condition and results of operations.

Furthermore, such economic conditions have produced downward pressure on stock prices and on the availability of credit for financial institutions and corporations. If these levels of market disruption and volatility continue, we might experience reductions in business activity, increased funding costs and funding pressures (as applicable), a decrease in the market price of our shares, a decrease in asset values, additional write-downs and impairment charges and lower profitability.

Additional Financings

If we are not able to achieve and sustain profitability in the future or if we require additional capital to fund growth or other initiatives, we may require additional equity or debt financing. There can be no assurances that we will be able to obtain additional financial resources on favorable commercial terms or at all. Failure to obtain such financial resources could affect our plans for growth or result in the Company being unable to satisfy its obligations as they become due, either of which could have a material adverse effect on our business, results of operations and the financial condition.

Insurance coverage

Due to our involvement in the cannabis industry, we may have a difficult time obtaining the various insurances at normal industry rates that are desired to operate the business, which may expose us to additional cost, risk and financial liability. Insurance that is otherwise readily available, such as general liability, and directors and officer's insurance, may be more difficult to find, and more expensive because of the regulatory regime applicable to the industry. There are no guarantees that we will be able to find such insurances in the future, or that the cost will be affordable. If we are forced to go without such insurances, it may prevent us from entering into certain business sectors, may inhibit growth, and may expose us to additional risk and financial liabilities.

Data Security Breaches
The Company or our third-party service providers collect, process, maintain and use sensitive personal information relating to our customers and employees, including customer financial data (e.g., credit card information) and their personally identifiable information, and rely on third parties in connection with the operation of ecommerce and for the various social media tools and websites used as part of our marketing strategy. Any perceived, attempted or actual unauthorized disclosure of customer financial data (e.g., credit card information) or personally identifiable information regarding our employees, customers or website visitors could harm our reputation and credibility, reduce our e-commerce sales, impair our ability to attract website visitors, reduce our ability to attract and retain customers and could result in litigation against us or the imposition of significant fines or penalties.

Recently, data security breaches suffered by well-known companies and institutions have attracted a substantial amount of media attention, prompting new foreign, federal and provincial laws and legislative proposals addressing data privacy and security. As a result, we may become subject to more extensive requirements to protect the customer information that we process in connection with the purchase of our products, resulting in increased compliance costs.

Our on-line activities, including our e-commerce websites, may also be subject to denial of service or other forms of cyber-attacks. While we have taken measures to protect against those types of attacks, those measures may not adequately protect our on-line activities from such attacks. If a denial-of-service attack or other cyber event were to affect our e-commerce sites or other information technology systems, our business could be disrupted, we may lose sales or valuable data, and our reputation may be adversely affected.

Completion of future acquisitions, divestitures or business combinations
We believe that we may need to actively identify and source future acquisition opportunities. We are also actively pursuing strategic joint ventures and partnerships that will enable us to further broaden and diversify our product offerings and leverage current distribution facilities. Although we may engage in discussions with and submit proposals to acquisition and partnership candidates, suitable acquisitions and partnerships may not be available in the future on reasonable terms. Even if we identify an appropriate acquisition or partnership candidate, we may not be able to successfully negotiate the terms of the acquisition, finance the acquisition or, if the acquisition occurs, effectively integrate the acquired business into our business. In addition, the negotiation of a potential acquisition or partnership and the integration of an acquired business may require a disproportionate amount of management's attention and resources.

Even if we complete additional business acquisitions, continued acquisition financing may not be available or available on reasonable terms, the new business acquired may not generate revenues as anticipated, and any anticipated costs efficiencies or synergies may not be realized. If we were unable to successfully identify, execute or integrate future acquisitions, this could negatively affect our results of operations. Even though we perform a due diligence review of the businesses we intend to acquire of a quality that we believe is consistent with industry practices, such reviews are inherently incomplete. Even an in-depth due diligence review of a business might not reveal existing or potential problems or permit us to become sufficiently familiar for a complete evaluation of the business. Even when problems are identified, we might assume certain risks and liabilities in connection with the acquired business.

COVID-19 Pandemic
Our business could be materially and adversely affected by the outbreak of a widespread epidemic or pandemic or other public health crisis, including arising from the novel strain of the coronavirus known as "COVID-19." A local, regional, national or international outbreak of a contagious virus, including the novel coronavirus, COVID-19 could cause staff shortages, reduced customer traffic, supply shortages, and increased government regulation all of which may negatively impact our business, financial condition and results of operations.

The ultimate extent of the impact of any epidemic, pandemic or other health crisis on our business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic or other health crisis and actions taken to contain or prevent their further spread, among others. These and other potential impacts of an epidemic, pandemic or other health crisis, such as COVID-19, could therefore materially and adversely affect our business, financial condition and results of operations.

Risks Related to the Regulatory Environment

Canadian Regulatory Landscape
The production, distribution and sale of cannabis in Canada is strictly regulated. On October 17, 2018, the Cannabis Act and accompanying regulations promulgated under the Cannabis Act (the "Cannabis Regulations"), and the new industrial hemp regulations (the "IHR", and together with the Cannabis Regulations, collectively, the "Regulations"), came into force, legalizing the production, distribution and sale of cannabis for adult recreational purposes, as well as incorporating the pre-existing medical cannabis regulatory scheme under one complete framework. Amendments legalizing the sale of edible cannabis, cannabis extracts, and cannabis topicals in the Canadian market came into force on October 17, 2019. A federally licensed entity with authorization to produce and sell any class of cannabis (except plants and seeds) must provide 60-days notice to Health Canada of its intent to sell any new cannabis retail product prior to making such product available for sale to provincially authorized purchasers or medical users. Pursuant to the federal regulatory framework in Canada, each province and territory may adopt its own laws governing the distribution, sale and consumption of cannabis and cannabis accessories within the province or territory provided that the provincial or territorial legislation contains certain measures that mirror the public health policy goals of the federal regime.

All Canadian provinces and territories have implemented mechanisms for the distribution and sale of cannabis for recreational purposes within those jurisdictions, and retail models vary between jurisdictions. The Cannabis Act maintains separate access to cannabis for medical purposes, including providing that import and export licences and permits will only be issued in respect of cannabis for medical or scientific purposes or in respect of industrial hemp. Patients who have the authorization of their healthcare provider may register with Health Canada to have access to cannabis, either purchased directly from a federally licensed entity authorized to sell for medical purposes, or by registering to produce a limited amount of cannabis for their own medical purposes or designating someone to produce cannabis for them.

Provincial Regulatory Framework

While the Cannabis Act provides for regulation of the commercial production of cannabis and related matters by the federal government, the provinces and territories of Canada have authority to adopt their own laws and regulations governing the distribution, sale and consumption of cannabis and cannabis accessory products within the province or territory, permitting for example, provincial and territorial governments to set lower possession limit for individuals and higher age requirements.

All Canadian provinces and territories have implemented regulatory regimes for the distribution and sale of cannabis for recreational purposes within those jurisdictions. In most provinces, provincial/territorial crown corporations act as intermediaries between entities licensed federally under the Cannabis Act and consumers, such bodies acting in some jurisdictions as exclusive cannabis wholesalers and distributors, and in some instances as exclusive retailers.

Some provinces also authorize municipal governments to impose additional requirements and regulations on the sale of recreational cannabis, such as by restricting the number of recreational cannabis retail outlets that are permitted in a certain geographical area. Municipal zoning authority also generally permits a municipality to restrict the geographical locations wherein such retail outlets may be opened.

Forward Looking Information

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 growth initiatives for 2023 and beyond, which includes: (i) growing medical sales from our new online e-commerce platforms; (ii) growing recreational sales via direct delivery orders to retailers; (iii) growing revenue from manufacturing services; and (iv) achieving revenue growth from export sales. 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.

Additional information

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

Corporation information

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