



**HERBAL DISPATCH INC.**

**Management's Discussion and Analysis  
For the Three Months Ended March 31, 2023**

**(Stated in Canadian Dollars)**

**Dated May 26, 2023**

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## Herbal Dispatch Inc.

### Management's Discussion and Analysis

For the Three Months Ended March 31, 2023

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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 May 26, 2023 to assist readers in understanding our financial performance for the three months ended March 31, 2023. This MD&A should be read in conjunction with the accompanying unaudited condensed interim consolidated financial statements for the three months ended March 31, 2023 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, 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 May 26, 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](http://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. Our 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](http://herbaldispatch.com).

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## Corporate Highlights

- In the first quarter of 2023, we experienced significant revenue growth, achieving gross sales of \$0.4 million, representing growth of over 60% from the previous quarter ended December 31, 2022. In addition, our monthly run rate of revenue has gone from less than \$0.1 million in January 2023 to \$0.3 million in April 2023 and an estimated \$0.4 million in May 2023.
- 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](https://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.
- On May 25, 2023, we announced that we intend to complete a non-brokered private placement ("Private Placement") of approximately 100,000,000 units of the Company (the "Units") at a price of \$0.01 per Unit for gross proceeds of \$1,000,000. Each Unit shall consist of one common share and one common share warrant (a "Warrant") with each Warrant exercisable for one common share at a price of \$0.05 per share for a period of 24 months after the closing date.

## Overall Performance and Strategy

We continued to make significant progress towards our strategic growth initiatives in the first quarter of 2023, achieving gross sales of \$0.4 million, an over 60% increase from the previous quarter ended December 31, 2022. Our monthly run rate revenue has also gone from less than \$0.1 million in January 2023 to \$0.3 million in April 2023 and an estimated \$0.4 million in May 2023. We are experiencing strong repeat orders and have grown our direct delivery platform from 38 to over 100 customers since the start of 2023 and now have over 1,500 active customers on our medical sales platform. In addition, we are seeing strong inbound interest in export sales that are expected to convert to revenue starting later in the second quarter.

We believe our online strategy is overcoming many of the challenges that the cannabis industry has been experiencing in recent years 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 across all of our available product channels: direct to consumer (medical), wholesale to retailers (direct delivery recreational) and bulk sales (domestic & export).

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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 are also expanding into other provinces 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 expect that our sales revenue will continue to meaningfully increase through the remainder of 2023 as we execute the above growth strategies.

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## Selected Financial Data

The following table displays a summary of our consolidated statements of operations for the three months ended March 31, 2023 and 2022 and a summary of select balance sheet data as at March 31, 2023 and December 31, 2022.

Three months ended \$	March 31 2023	March 31 2022
Gross revenue	<b>383,101</b>	19,832
Net revenue	<b>295,318</b>	19,832
Gross profit	<b>29,190</b>	(17,958)
Operating expenses	<b>692,308</b>	475,804
Other expense (income), net	<b>22,649</b>	63,784
Net loss	<b>(685,767)</b>	(557,546)
Loss per share – basic and diluted	<b>(0.00)</b>	(0.00)
<hr/>		
As at \$	March 31 2023	Dec 31 2022
<b>Assets</b>		
Cash and cash equivalents	<b>598,559</b>	1,203,594
Total assets	<b>8,004,674</b>	7,942,158
<b>Liabilities</b>		
Current liabilities	<b>1,432,369</b>	1,208,043
Long-term liabilities	<b>981,649</b>	457,033
Total liabilities	<b>2,414,018</b>	1,665,076
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<b>Shareholders' equity</b>	<b>5,590,656</b>	6,277,082

## Results of Operations

### Revenue

Our gross revenue of \$0.4 million for the three months ended March 31, 2023 increased significantly from the same quarter in 2022. In the fall of 2022, we commenced sales in Canada on the recently acquired cannabis marketplace **herbaldispatch.com**. Since our launch, sales have been growing steadily month-over-month as we grow our customer base and achieve robust rates of repeat orders. Since the start of 2023, our direct delivery platform has increased from 38 to over 100 customers and we now have over 1,400 active customers on our medical sales platform.

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#### Gross profit

Gross profit was \$29 thousand for the three months ended March 31, 2023, representing a gross margin of 10% on net revenue of \$0.3 million. As our sales volumes continue to grow, we anticipate achieving more economies of scale from our direct operating costs, which should translate into high gross margins going forward. In addition, we anticipate that our gross margin will also improve in the future from changes in sales mix, including from exports sales.

In the comparative quarter ended March 31, 2022, our nominal sales of just \$20 thousand was not sufficient to fully absorb the fixed components of our direct operating costs, resulting in a negative gross profit for the comparative quarter.

#### Operating expenses

Three months ended \$	March 31 2023	March 31 2022
<b>General and Administrative</b>		
Personnel	266,218	191,878
Professional fees	134,899	125,627
Other operating expenses	58,814	46,244
	<b>459,931</b>	363,749
<b>Sales and Marketing</b>		
Personnel	42,500	-
Advertising, promotions and selling costs	100,604	59,285
	<b>143,104</b>	59,285

General and administrative expenses increased in the first quarter of 2023 compared to the same three months in 2022. In early 2022, we significantly reduced operating expenditures as we downsized our operations in the United States. However, in the second half of fiscal 2022 our operating expenses began to increase as we worked to launch and then commence sales on our online sales platforms in Canada.

Likewise, sales and marketing expenditures also increased in 2023 from the prior year. Following our acquisitions of the National Green Biomed group of companies ("NG Biomed") and the herbaldispatch.com platform in August 2022, we again began to incur more significant investments in sales and marketing activities as we launched our new cannabis marketplace in Canada. These expenditures are continuing as we work to significantly grow our sales in 2023.

Share based compensation expense was \$nil for the three months ended March 31, 2023 as no new options or restricted share units were granted in Q1 2023 nor in fiscal 2022.

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Depreciation and amortization expense increased to \$89 thousand in Q1 2023 from \$47 thousand in Q1 2022. This expense primarily relates to the amortization of equipment and intangible assets acquired from business acquisitions in 2022 as well as equipment and other capital assets acquired to support the ramp up of sales activities.

**Other expenses (income)**

Other expenses (income) for the three months ended March 31, 2023 and 2022 primarily consisted of (i) interest costs and accretion related to loans payable; and (ii) foreign exchange gains and losses on cash and loans receivable denominated in US dollars.

**Net loss**

Our net loss increased slightly to \$0.7 million for the three months ended March 31, 2023 from \$0.6 million in the prior year. The higher net loss was primarily due to higher general and administrative expenses and sales and marketing costs that were incurred to support the current and anticipated growth in our business and operations in 2023.

**Summary of Quarterly Data**

Quarter ended	Mar	Dec	Sept	June	Mar	Dec	Sept	June
\$ (000's, except per share)	2023	2022	2022	2022	2022	2021	2021	2021
Net revenue	295	189	101	9	20	30	374	209
Net (loss) income	(686)	(1,906)	(778)	(1,374)	(558)	651	(840)	(1,410)
(Loss) income per share <sup>(1)</sup>	(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. In 2021, our business plan focused on 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 launched our new online cannabis marketplace in Canada near the end of the quarter. This trend continued in Q4 2022 and Q1 2023 with sales increasing to \$0.3 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.

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## Financial Condition and Liquidity

As at \$	March 31 2023	Dec 31 2022
Current assets	1,633,267	2,114,098
Total assets	8,004,674	7,942,158
Current liabilities	1,432,369	1,208,043
Total liabilities	2,414,018	1,665,076
Shareholders' equity	5,590,656	6,277,082
Working capital <sup>(1)</sup>	200,898	906,055
Three months ended	March 31 2023	March 31 2022
Cash flows used in operating activities	(566,115)	(569,810)
Cash flows used in investing activities	(2,830)	-
Cash flows used in financing activities	(35,003)	(47,955)

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

### Working capital

Our working capital position declined to \$0.2 million at March 31, 2023 from \$0.9 million at December 31, 2022. The \$0.7 million decrease was primarily due to our net loss in Q1 2023, which was also \$0.7 million. At March 31, 2023, our cash position was \$0.6 million compared to \$1.2 million at December 31, 2022.

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 March 31, 2023, we believe we will need to access additional equity and/or debt financing to support our growth objectives and operating expenditures over the coming months. As we successfully execute on our growth objectives, we anticipate that we will begin to achieve positive cash flow from operations in the future.

On May 25, 2023, we announced that we intend to complete a Private Placement of approximately 100,000,000 Units of the Company at a price of \$0.01 per Unit for gross proceeds of \$1,000,000. Each Unit shall consist of one common share and one Warrant with each Warrant exercisable for one common share at a price of \$0.05 per share for a period of 24 months after the closing date. The Private Placement shall be completed on a best-efforts basis from eligible purchasers that shall be restricted to accredited investors or other investors meeting exemption requirements for a non-brokered private placement.



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#### **Cash used in operating activities**

Cash used in operating activities during the three months ended March 31, 2023 was \$0.6 million (2022 - \$0.6 million). In both Q1 2023 and Q1 2022, we did not generate sufficient revenue and gross profit to cover our operating expenses.

#### **Cash used in investing activities**

During the three months ended March 31, 2023, we incurred a nominal amount of capital expenditures on miscellaneous equipment to support business operations.

#### **Cash used in financing activities**

Net cash used in financing activities was \$35 thousand for the quarter ended March 31, 2023, which consisted of principal repayments on our right of use lease liability and payments related to consideration payable from the acquisition of NG Biomed in the prior year.

Our loans payable at March 31, 2023 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 15, 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 May 2023, and subject to approval of the CSE, we amended the terms of this debenture, which now includes the following terms:

- Maturity date extended until May 31, 2024;
- Coupon rate of 10% per annum;
- Holder's right to convert the debenture into common shares of the Company at a price of \$0.01 per share; and
- Company's right to convert the debenture into common shares of the Company during any period where the 20-day weighted average trading price of the Company's common shares is \$0.05 or greater.

In addition, we had convertible debentures in the principal amount of \$500,000 that 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.

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## Shareholders' Equity

Shareholders' equity decreased to \$5.6 million at March 31, 2023 from \$6.3 million at December 31, 2022. The statements of shareholders' equity included in the accompanying consolidated financial statements for the three months ended March 31, 2023 provide a schedule showing changes to all of the components of shareholders' equity during the period. The decrease of \$0.7 million was attributable to the net loss incurred for the quarter.

## Related Party Transactions

Three months ended \$	March 31 2023	March 31 2022
<b>Key management personnel compensation</b>		
Wages and benefits and management fees	<b>78,070</b>	76,443
Fees paid to directors	<b>30,000</b>	24,000
Share based compensation	-	5,813
	<b>108,070</b>	106,256

For the three months ended March 31, 2023, we defined key management personnel as being the Chief Executive Officer and Chief Financial Officer. During the three months ended March 31, 2023, we also incurred interest expense of \$6,568 (three months ended March 31, 2023 - \$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 26 2023	March 31 2023
<b>Common Shares outstanding</b>	<b>736,279,091</b>	733,547,725

As at May 26, 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 43,800,000 common shares of the Company.

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## **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 and in the "Risks and Uncertainties" section of our MD&A for the year ended December 31, 2022, 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 our business risks actually occur, our overall business, operating results and financial condition could be materially adversely affected.

## **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](http://www.sedar.com).

### Corporation information

Registered Office:	Suite 1750 – 1055 West Georgia Street, Vancouver, BC V6E 3P3
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:	Endeavor Trust Corporation 702 – 777 Hornby Street Vancouver, BC, V6Z 1S4