LUFF ENTERPRISES LTD.

Management's Discussion and Analysis
For the Year Ended December 31, 2021

(Stated in Canadian Dollars)

Dated April 5, 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 April 5, 2022 to assist readers in understanding our financial performance for the year ended December 31, 2021. This MD&A should be read in conjunction with the accompanying 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 April 5, 2022.

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

Business Overview

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

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

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 Canadian Securities Exchange. Effective May 15, 2020, we changed our name to Luff Enterprises Ltd.

Corporate Highlights

- In January 2021, we launched our online sales platform *shop.luffbrands.com* ("ShopLuff") and also completed our first B-to-B sales. The ShopLuff store is a frictionless direct-to-consumer website where customers can shop the Company's line of high-quality CBD products. Sales continued via this platform throughout fiscal 2021;

- In March 2021, we implemented a private labeling ("White label") program featuring a portfolio of product offerings that are focused on industrial hemp-based CBD products rich in novel cannabinoids. The White label program allowed wholesale customers access to large scale manufacturing and custom filling and labeling options through our assets while being able to focus on their own brands;

- In March 2021, we entered into a licensing and manufacturing agreement with Shade Media Inc ("Shade"). Under the agreement we began producing several Shade branded products for distribution into Shade's established channels;

- In November 2021, we completed an exclusive wholesale distribution agreement with Alkannoli Lda, a soon to be licensed producer and seller of medical cannabis products in Germany and Portugal. This agreement will allow us to bring our products into the European market and believe Alkannoli will be a strong partner to take advantage of the immense growth opportunity in both the German and Portugal markets;

- In November 2021, we closed a non-brokered private placement of 27,656,000 units for gross proceeds of $580,776. Each unit issued consisted of one common share of Luff and one common share purchase warrant ("Warrant"). Each Warrant issued entitles the holder to acquire one common share of Luff at a price of $0.05, expiring on October 26, 2024;

- In December 2021, we completed the sale of our Nevada assets for gross proceeds of USD $5.0 million. A portion of the proceeds from this sale were utilized to fully repay loans payable of $2.0 million with the remainder of the funds being available for working capital needs and future strategic investments;

- In January 2022, we appointed Jason Vandenberg, CPA, CA as our Chief Financial Officer. Mr. Vandenberg brings over 20 years of experience across diverse financial leadership positions.

- In January 2022, we downsized our operations in Oregon, USA. The downsizing will allow us to further reduce our operating expenses and overhead going forward, while we focus our efforts on our core strategy of building out our online sales channels through our innovative e-commerce platforms across North America.

Overall Performance and Strategy

Fiscal 2021 continued to be a year of transition for Luff Brands as we worked to strategically position ourselves as a North American leader in the distribution and sale of hemp-based CBD wellness products. Initiatives achieved in 2021 included the launch of our online sales platform *shop.luffbrands.com* ("ShopLuff"). The ShopLuff store is a frictionless direct-to-consumer website where customers can shop the Company's line of high-quality CBD products. Sales have continued via this platform throughout fiscal 2021 with revenue exceeding $680,000 during the year ended December 31, 2021, a substantial increase from just nominal sales of $20 thousand in the prior year.

In addition, we implemented a White label program featuring a portfolio of product offerings that are focused on industrial hemp-based CBD products rich in novel cannabinoids. The White label program allowed wholesale customers access to large scale manufacturing and custom filling and labeling options through our assets while being able to focus on their own brands. We also started to enter into exclusive wholesale distribution agreements for the distribution of our products in other foreign jurisdictions.

In 2021, we made the strategic decisions to dispose of our manufacturing facility in Nevada and in early 2022, we significantly downsized our operations in Oregon. The sale of our facility in Nevada provided us gross cash proceeds of USD $5.0 million, which allowed us significantly reduce our outstanding debt and provide us with additional working capital to execute on our strategic growth initiatives. These initiatives also allowed us to significantly reduce our operating expenditures as we enter 2022. Our revised business model going forward will require much lower operating expenditures.

Our key strategic initiatives for fiscal 2022 are 100% focused on our core strategy of building out our online sales channels through our innovative e-commerce platforms across North America. This includes implementing new and expanded direct-to-consumer marketing campaigns to bring awareness to our brands and product offerings. We also intend to expand our sales platform into Canada in fiscal 2022. To achieve this, we are actively pursuing opportunities to acquire an existing licensed producer in Canada as well as opportunities to significantly expand our on-line distribution capabilities. This includes establishing and/or acquiring verified databases of users/subscribers.

Our direct-to-consumer business model, in Canada, will also allow us to bypass the provincial distributors (as well as retailers) as we sell directly from growers and product manufacturers to users. This will result in higher gross margins on our product.

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

Selected Financial Data

The following table displays a summary of our consolidated statements of operations for the years ended December 31, 2021 and 2020 and a summary of select balance sheet data as at December 31, 2021 and 2020.

Year ended and as at $	**Dec 31 2021**	Dec 31 2020
Revenue	**684,238**	20,080
Gross profit	**239,661**	16,533
Operating expenses	**3,871,778**	4,114,130
Other (income) expense, net	**(1,250,861)**	2,337,310
Net loss	**(2,395,752)**	(6,438,047)
Loss per share – basic and diluted	**(0.01)**	(0.02)
Assets		
Cash and cash equivalents	**3,880,602**	1,932,363
Total assets	**7,251,489**	11,549,796
Liabilities		
Current liabilities	**340,733**	2,602,494
Long-term liabilities	**427,339**	501,495
Total liabilities	**768,072**	3,103,989
Shareholders' equity	**6,483,417**	8,445,807

Results of Operations

Revenue and gross profit

Fiscal 2021 continued to be a year of transition for Luff Brands as we worked to strategically position ourselves as a North American leader in the distribution and sale of hemp-based CBD wellness products. Through these initiatives, revenue grew to $0.7 million during the year ended December 31, 2021, a substantial increase from sales of just $20 thousand in the prior year.

Along with the substantial increase in revenue, we also achieved a much higher gross profit of $0.2 million in fiscal 2021, representing a gross margin of 35%.

Operating expenses

Year ended $	Dec 31 2021	Dec 31 2020
General and Administrative		
Personnel	**1,087,638**	761,158
Professional fees	**594,907**	1,313,983
Other operating expenses	**406,547**	766,390
	2,089,092	2,841,531
Sales and Marketing		
Personnel	**115,468**	62,402
Advertising, promotions and selling costs	**691,007**	141,754
	806,475	204,156

General and administrative expenses declined considerably in fiscal 2021, primarily due to lower professional fees. In fiscal 2020, we were still incurring substantial legal fees associated with the Companies' Creditors arrangement Act ("CCAA") process. The Company ended its CCAA process on May 15, 2020. Partially offsetting the decline in professional fees were higher personnel costs in 2021 as we hired additional employees to support the growth in our operations.

With the sale of our Nevada facility and downsizing of our facility in Oregon, we anticipate that our general and administrative expenses will decline significantly further in fiscal 2022. Our new business strategy, which focuses on our online sales channels through our innovative e-commerce platforms, will require substantially lower operating expenses to support.

Sales and marketing expenses increased significantly in 2021, rising to $0.8 million from $0.2 million in fiscal 2020. During the year ended December 31, 2021, we made substantial investments in several marketing initiatives to support our sales growth. We expect that we will continue to incur significant investments in advertising and promotion activities in fiscal 2022 to support our sales and revenue objectives.

Share based compensation expense increased to $0.3 million for the year ended December 31, 2021 from $30 thousand in 2020. The expense primarily related to restricted share units issued to key employees and directors during the year.

Depreciation and amortization expense declined to $0.7 million in fiscal 2022 from $1.0 million in the prior year. The decline was due to the sale of our Nevada facility and assets in Q4 2021.

Other (income) expenses

Other (income) expenses for the year ended December 31, 2021 was positive $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 ("PPP") loan that we received in early 2021.

Other (income) expenses for the comparative year ended December 31, 2020 was a loss of $2.3 million. The expense primarily related to CCAA settlement costs of $1.7 million as well as impairment losses incurred of $0.3 million related to property, plant and equipment and intangible assets.

Net loss

Our net loss of $2.4 million for the year ended December 31, 2021 compared favourably to our net loss of $6.4 million recognized in the prior year. The variance in other (income) expenses discussed above was the primary driver of the overall change in net loss over the prior year.

Results of Operations for the Fourth Quarter Ended December 31, 2021

Fiscal Quarter Ended $	**Dec 31** **2021**	Dec 31 2020
Revenue	**30,479**	15,781
Gross profit (loss)	**(43,676)**	23,106
Operating expenses	**914,396**	595,811
Other (income) expense, net	**(1,802,114)**	892,485
Net income (loss)	**650,970**	(1,465,190)
Income (loss) per share – basic and diluted	**0.00**	(0.01)

Revenue in Q4 2021 was comparable with the same period in the prior year, however, fell sharply from the revenue reported in the previous quarter ended September 30, 2021. Several reasons accounted for the decline, including: (i) our plan initiated to significantly downsize our Oregon facility and complete the sale of our Nevada operations, (ii) very limited sales initiatives were implemented in Q4 2021 due to limited cash resources and our change in strategy, and (iii) loss of a large customer that had originally commenced purchases from us in Q3 2021. Due to the limited revenue in Q4 2021, we also generated a negative gross margin of $44 thousand.

Operating expenses increased to $0.9 million in Q4 2021 from $0.6 million in the prior year. Higher expense related to personnel and professional services accounted for the majority of the increase. However, operating expenses in Q4 2021 were generally comparative with the operating expenses reported throughout fiscal 2021.

Other (income) expenses swung to a positive $1.8 million in Q4 2021 from negative $0.9 million in the prior year. The other income in Q4 2021 was primarily attributed to 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 quarter. Conversely, in the comparative quarter in 2020, the other expenses of $0.9 million was primarily due to CCAA settlement costs.

Due to the gains discussed above, we generated net income of $0.7 million in Q4 2021, which compared favourably to the net loss of $1.5 million reported in Q4 2020.

Summary of Quarterly Data

Quarter ended $ (000's, except per share)	**Dec 2021**	Sept 2021	June 2021	Mar 2021	Dec 2020	Sept 2020	June 2020	Mar 2020
Revenue[1]	**30**	374	209	70	16	-	-	5
Net income (loss)	**651**	(806)	(1,410)	(831)	(1,465)	(354)	(1,955)	(2,664)
Income (loss) per share[2]	**0.00**	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.01)	(0.01)

Notes: (1) Certain revenue amounts presented in prior quarters have been reclassified to other income to be consistent with the current period's income statement presentation.
(2) 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 ("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 third quarter of 2020 until Q3 2021. However, in Q4 2021, our revenue fell sharply for several reasons, including: (i) our plan initiated to significantly downsize our Oregon facility and complete the sale of our Nevada operations, (ii) very limited sales initiatives were implemented in Q4 2021 due to limited cash resources and our change in strategy, and (iii) loss of a large customer that had originally commenced purchases from us in Q3 2021.

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

Financial Condition and Liquidity

As at $	Dec 31 2021	Dec 31 2020
Current assets	**6,061,425**	3,951,868
Total assets	**7,251,489**	11,549,796
Current liabilities	**340,733**	2,602,494
Total liabilities	**768,072**	3,103,989
Shareholders' equity	**6,483,417**	8,445,807
Working capital(1)	**5,720,692**	1,349,374

Year ended	Dec 31 2021	Dec 31 2020
Cash flows used in operating activities	**(2,959,478)**	(3,398,963)
Cash flows from (used in) investing activities	**6,359,993**	(860,551)
Cash flows (used in) from financing activities	**(1,414,188)**	2,361,248

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

Working capital

Our working capital position improved significantly to $5.7 million at December 31, 2021 from $1.3 million at December 31, 2020. The $4.4 million improvement was primarily due to the sale of our Nevada facility in December 2021 and subsequent repayment of short-term notes payable in the amount of $2.0 million. At December 31, 2021, our cash position was $3.9 million compared to $1.9 million at December 31, 2020.

Based on our strong cash and working capital position at December 31, 2021, we believe we have capital sufficient to fund our operating expenditures and pursue our growth objectives for the foreseeable future. However, our ability to fund our future operating expenses and capital expenditures will continue to depend on our future operating performance which will be affected by general economic, financial, regulatory, FDA, and other factors including factors beyond the Company's control (See "Risks and Uncertainties").

Cash used in operating activities

Cash used in operating activities during the year ended December 31, 2021 was $3.0 million (fiscal 2020 - $3.4 million). In fiscal 2021, we did not generate sufficient revenue and gross profit to cover our operating expenses. Late in fiscal 2021 and year-to-date in 2022, we have worked to significantly reduce our operating expenditures related to our operations in the United States. These reductions included the sale of our Nevada facility in December 2021 and the significant downsizing of our manufacturing operations in Oregon in early 2022.

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

Cash from investing activities

Net cash from investing activities was $6.4 million for the year ended December 31, 2021 compared to $0.9 million used in investing activities in 2020. In December 2021, we completed the sale of our Nevada assets for gross proceeds of USD $5.0 million (CAD $6.5 million).

Cash from financing activities

Net cash used in financing activities was $1.4 million for the year ended December 31, 2021, which primarily consisted of the repayment of notes payable in the amount of $2.0 million, offset by the issuance of common shares for net proceeds of $0.6 million.

In November 2021, we closed a non-brokered private placement of 27,656,000 units for gross proceeds of $580,776. Each unit issued consisted of one common share of Luff and one Warrant. Each Warrant issued entitles the holder to acquire one common share of Luff at a price of $0.05, expiring on October 26, 2024.

Our only remaining long-term debt at December 31, 2021 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 $6.5 million at December 31, 2021 from $8.4 million at December 31, 2020. The statements of shareholders' equity included in the accompanying financial statements for the year ended December 31, 2021 provide a schedule showing changes to all of the components of shareholders' equity during the year. The decrease of $1.9 million was primarily attributable to the net loss incurred for the year of $2.4 million, offset by the issuance of share capital of $0.6 million.

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 2021	Dec 31 2020
Key management personnel compensation		
Wages and benefits and management fees	**683,609**	377,960
Fees paid to directors	**114,000**	115,500
Stock-based compensation	**317,570**	-
	1,115,179	493,460

For the years ended December 31, 2021, we defined key management personnel as being the Chief Executive Officer, Chief Financial Officer, and Chief Operations Officer. Key management personnel compensation included in wages and benefits and share-based compensation on the statement operations was $797,609 and $317,570 (2020 – $493,460 and $nil), respectively.

During the year ended December 31, 2021, we incurred interest expense of $26,270 (year ended December 31, 2020 - $42,689) 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 5 2022	Dec 31 2020
Common Shares outstanding	**431,539,032**	431,539,032

As at April 5, 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) Restricted share units convertible into 900,000 common shares of the Company;
(iv) Stock options exercisable into 400,000 common shares of the Company at a price of $0.02 per share; 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.

Revenue from contracts with customers
We have determined that goods and services rendered are capable of being distinct and we recognize revenue when the customer receives and continuously uses the benefits of the goods and services provided. The transaction price is based on specific contract rates and does not contain variable consideration or significant financing components.

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.

Investments in associates
We have applied significant judgement in the determination of whether or not the Company exerts significant influence with respect to its investments, which then allows the Company to account for investments under the cost accounting method. Further, we have applied significant judgement and made use of estimates and assumptions in determining and quantifying any impairment losses that may need to be recorded against our investments in associates.

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.

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. 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.

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.

In late 2019, COVID-19 was first detected in Wuhan, China. Since then, the virus has spread to over 100 countries. During March 2020, many governments ordered all but certain essential businesses closed and imposed significant limitations on the circulation of the populace. Furthermore, certain illnesses may be transmitted through human or surface contact, and the risk of contracting such illnesses could cause employees and customers to avoid gathering in public places, as was the case in many places during February, March and April 2020 due to concerns about the coronavirus. We could be adversely affected if governments under which we or our suppliers operate impose mandatory closures, seek voluntary closures, or impose restrictions on operations., with the length of such closures directly related to the severity and materiality of the impact on our business.

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.

Industry Competition

The hemp-based CBD wellness product market is highly competitive, and therefore, we will face competition from other companies, some of which may have longer operating histories, and more financial resources than Luff Brands. 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 require research and development, marketing, sales and support. We believe that with our proprietary manufacturing methods and unique formulations we will be able to remain competitive in the market.

Given the rapid changes affecting the global, national and regional economies generally and the CBD 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 depend on our ability to compete in an environment when many competitors do not adhere to FDA and/or other federal, state and international rules, law and/or guidelines. 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, scientific, 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, scientific, 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 the business and financial results from operations.

Domestic Supply Risk

We use only hemp products with full compliance under federal and state regulations to be sold across the United States, and on a limited basis Internationally. The regulation of third-party suppliers may have a significant impact upon the business. Any state 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.

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 technologies, products or services. 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 industrial hemp 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, provincial and state 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 will 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, leverage current and future manufacturing and distribution facilities for new products and expand our intellectual property portfolio. 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.

Growth Strategies

Our future depends, in part, on our ability to implement our growth strategy including (i) product innovations; (ii) growth in retail, wholesale and distributor partnerships; (vii) growth in e-commerce distribution; and (iv) improvements in operating income, gross profit and operating expense margins. Our ability to implement this growth strategy depends on, among other things, our ability to develop new 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.

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 a number of 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) manufacture and deliver products in sufficient volumes and on a timely basis; and (vi) differentiate product offerings from those of competitors.

United States tax residence of the Company

Luff Brands is and will continue to be a Canadian corporation and generally would be classified as a non-United States corporation (and, therefore, as a non-United States tax resident) under general rules of United States federal income taxation. Section 7874 of the United States Tax Code, however, contains rules that can cause a non-United States corporation to be taxed as a United States corporation for United States federal income tax purposes. The rules described in this paragraph are relatively new, their application is complex and there is little guidance regarding their application. Under section 7874 of the United States Tax Code, a corporation created or organized outside the United States (i.e., a non-United States corporation) will nevertheless be treated as a United States corporation for United States federal income tax purposes (such treatment is referred to as an "Inversion") if each of the following three conditions are met (i) the non-United States corporation acquires, directly or indirectly, or is treated as acquiring under applicable United States Treasury Regulations, substantially all of the assets held, directly or indirectly, by a United States corporation, (ii) after the acquisition, the former stockholders of the acquired United States corporation hold at least 80.0% (by vote or value) of the shares of the non- United States corporation by reason of holding shares of the United States acquired corporation, and (iii) after the acquisition, the non-United States corporation's expanded affiliated group does not have substantial business activities in the non-United States corporation's country of organization or incorporation when compared to the expanded affiliated group's total business activities (clauses (i) – (iii), collectively, the "Inversion Conditions"). For this purpose, "expanded affiliated group" means a group of corporations where (i) the non-United States corporation owns stock representing more than 50.0% of the vote and value of at least one member of the expanded affiliated group, and (ii) stock representing more than 50.0% of the vote and value of each member is owned by other members of the group. The definition of an "expanded affiliated group" includes partnerships where one or more members of the expanded affiliated group own more than 50.0% (by vote and value) of the interests of the partnership.

If Luff Brands were to be treated as a United States corporation for United States federal income tax purposes under section 7874 of the United States Tax Code (which is considered likely, although no definitive determination of this matter has been reached, and no tax ruling has been sought or obtained in this regard), we would be considered a United States tax resident and subject to United States federal income tax on our worldwide income. However, for Canadian tax purposes, the Company is expected, regardless of any application of section 7874 of the United States Tax Code, to be treated as a Canadian resident company (as defined in the Tax Act) for Canadian income tax purposes. As a result, if the Company is considered a United States corporation under section 7874, the Company would be subject to taxation both in Canada and the United States which could have a material adverse effect on its financial condition and results of operations. In addition, any distributions paid by the Company to a holder of Common Shares may be subject to United States withholding tax as well as any applicable Canadian withholding tax. A Non-United States Holder may also be subject to United States tax, including withholding tax, on disposition of its Common Shares.

Risks Related to the Regulatory Environment

Regulation
We are subject to the local, state, and federal laws in the jurisdictions in which we operate. Outside of the United States, our products may be subject to tariffs, treaties and various trade agreements as well as laws affecting the importation of consumer goods and the retail sale of hemp-derived products. The 2018 Farm Bill became law on December 20, 2018. The 2018 Farm Bill removed hemp from the list of controlled substances under the Controlled Substances Act. The 2018 Farm Bill also redefined hemp to include its "derivatives, extracts, and cannabinoids", and accordingly removed popular hemp products, such as hemp-derived cannabidiol ("CBD") from the purview of the U.S. Drug Enforcement Agency (the "DEA"). Although the DEA no longer regulates hemp, the FDA retains its authority to regulate ingestible and topical products, including those that contain hemp and hemp extracts such as CBD. As a producer and marketer of hemp-derived products, the FDA governs the regulations applicable to manufacturing and marketing dietary supplements. These include regulations for food facility registration; current good manufacturing practice ("cGMPs") regulations; nutrition and allergen labeling and label claim regulations; rules for submission of received serious adverse event reports; and safety requirements, including, as applicable, new dietary ingredient ("NDI") and generally recognized as safe ("GRAS") regulations. The FDA has stated its concerns over drug claims being made about products that contain CBD, as well as the agency's position that under the Food, Drug and Cosmetic Act ("FD&C Act") CBD cannot be marketed in a dietary supplement because a product containing CBD was approved as a drug and substantial clinical trials studying CBD as a new drug were made public prior to the marketing of any food or dietary supplements containing CBD, and therefore dietary supplements or food are precluded from containing this ingredient (the "IND Preclusion"). We believe there are significant arguments against this position in that all conditions of the applicable statute must be met before the IND Preclusion applies. Importantly, the FDA has acknowledged there are pathways for the FDA to consider with regard to circumstances in which certain cannabis-derived compounds such as CBD might be permitted in a food or dietary supplement. The FDA has authority to issue a regulation that would allow these naturally occurring hemp compounds in a food, beverage or dietary supplement, and the FDA has indicated it is now engaged in a rule-making process to evaluate this issue.

Changes to Laws and Regulations Pertaining to Hemp
As of the date hereof, approximately forty seven states authorized hemp programs pursuant to the 2018 Farm Bill. Additionally, a handful of states and Native American tribes have had hemp regulatory plans approved under the 2018 Farm Bill. These new plans supplant any prior programs for hemp in these jurisdictions. Continued development of the hemp industry will be dependent upon new legislative authorization of hemp at the state level, and further amendment or supplementation of legislation at the federal level. Any number of events or occurrences could slow or halt progress altogether in this space. While progress within the hemp industry is currently encouraging, growth is not assured. Growth may be slowed by business failures of individuals or companies involved in supply and/or demand chains.

Additionally, while there appears to be ample public support for favorable legislative action, numerous factors may impact or negatively affect the legislative process(es) within the various states where we have business interests or transport raw material to various processing centers for final product production. Any one of these factors could slow or halt the use of hemp, which could negatively impact the business up to possibly causing us to discontinue operations as a whole.

Legislative and regulatory uncertainties, along with difficulties concerning potential enforcement activities by U.S. federal, state and local governments (or discretion exercised thereby), also represent significant risks concerning our business activities. Possible risks include, but are not limited to:

- positions asserted by the FDA concerning products containing derivatives from Hemp;
- uncertainty surrounding the characterization of cannabinoids as a dietary ingredient by the FDA; and
- enforcement activities by state and/or local law enforcement and regulatory authorities under the auspice of individual state law, regardless of any potential conflict thereby with federal law.

If our operations are found to be in violation of any of such laws or any other governmental regulations, we may be subject to penalties, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of our operations or asset seizures, any of which could adversely affect our business and financial results.

Costs Associated with Numerous Laws and Regulations
The manufacture, labeling and distribution of our products is regulated by various federal, state and local agencies. These governmental authorities may commence regulatory or legal proceedings, which could restrict the permissible scope of our product claims or the ability to sell products in the future. The FDA regulates our products to ensure that the products are not adulterated or misbranded.

We are subject to regulation by the federal government and other state and local agencies as a result of our CBD products. The shifting compliance environment and the need to build and maintain robust systems to comply with different compliance in multiple jurisdictions increases the possibility that we may violate one or more of the requirements. If our operations are found to be in violation of any of such laws or any other governmental regulations that apply to the Company, we may be subject to penalties, including, without limitation, civil and criminal penalties, damages, fines, and the curtailment or restructuring of our operations, any of which could adversely affect our financial results and the ability to operate our business.

Failure to comply with FDA requirements may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines and criminal prosecutions. Our advertising is subject to regulation by the Federal Trade Commission ("FTC") under the Federal Trade Commission Act. In recent years, the FTC has initiated numerous investigations of dietary supplement products and companies. Additionally, some states also permit advertising and labeling laws to be enforced by private attorney generals, who may seek relief for consumers, seek class-action certifications, seek class-wide damages and product recalls of products we sell. Any actions against us by any governmental authorities (Domestic or International) or private litigants could have a material adverse effect on our business, financial condition and results of operations.

Uncertainty Caused by Potential Changes to Legal Regulations
There is substantial uncertainty and different interpretations among federal, state and local regulatory agencies, legislators, academics and businesses as to the Farm Bill and the emerging regulation of cannabinoids. These different opinions include, but are not limited to, the regulation of cannabinoids by the FDA and the extent to which Farm Bill-compliant cultivators and processors may engage in interstate commerce. The uncertainties cannot be resolved without further federal, and perhaps even state-level, legislation, regulation or a definitive judicial interpretation of existing legislation and rules. If these uncertainties continue, such may have an adverse effect upon the introduction and availability of our products in different markets.

Regulatory Approval and Permits
We may be required to obtain and maintain certain permits, licenses and approvals in the jurisdictions where our products are licensed. Although we do not currently anticipate that such approvals will be necessary in both the US and International markets, there can be no assurance that we will be able to obtain or maintain any necessary licenses, permits or approvals. Any material delay or inability to receive these items is likely to delay and/or inhibit our ability to conduct our business, and could have an adverse effect on our business, financial condition and results of operations.

Forward Looking Information

Certain information provided in this MD&A constitutes forward-looking statements or information (collectively, "forward-looking statements"). Forward-looking statements are typically identified by words such as "may", "will", "should", "could", "anticipate", "expect", "project", "estimate", "forecast", "plan", "intend", "target", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Although these forward-looking statements are based on assumptions we consider to be reasonable based on the information available on the date such statements are made, such statements are not guarantees of future performance and readers are cautioned against placing undue reliance on forward-looking statements. By their nature, these statements involve a variety of assumptions, known and unknown risks and uncertainties, and other factors which may cause actual results, levels of activity, and achievements to differ materially from those expressed or implied by such statements. The forward-looking information contained in this MD&A is based on certain assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future development and other factors that we believe are appropriate.

The material factors and assumptions used to develop the forward-looking statements herein include, but are not limited to, the following: (i) the regulatory climate in which we operate; (ii) the sales success of our products; (iii) the success of future sales and marketing activities; (iv) that there will be no significant delays in the development and commercialization of our products; (v) there will be no significant reduction in the availability of qualified and cost-effective human resources; (vi) new products will continue to be added to our portfolio; (viii) demand for hemp-based wellness products will continue to grow in the foreseeable future; (ix) there will be no significant barriers to the acceptance of our products in the market; (x) we will be able to maintain compliance with applicable contractual and regulatory obligations and requirements; (xi) there will be adequate liquidity available to carry out our operations; (xii) we will be able to further reduce and control our operating expenditures in the future; and (xiii) we will be able to successfully manage and integrate future acquisitions.

Our forward-looking statements are subject to risks and uncertainties, including but not limited to those risks and uncertainties discussed under the heading "Risk and Uncertainties" in this MD&A and the Company's other filings with securities regulators. The impact of any one risk, uncertainty, or factor on a particular forward-looking statement is not determinable with certainty as these are interdependent, and our future course of action depends on our assessment of all information available at the relevant time. Except to the extent required by law, we assume no obligation to publicly update or revise any forward-looking statements made in this MD&A, whether as a result of new information, future events, or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to the Company or persons acting on the Company's behalf, are expressly qualified in their entirety by these cautionary statements.

Additional information

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

Corporation information

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