

LUFF ENTERPRISES LTD.

Condensed Interim Consolidated Financial Statements

Three and Nine Months Ended September 30, 2022
(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited interim consolidated financial statements, they must be accompanied by a notice indicating that the unaudited interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The unaudited condensed interim consolidated financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards for the preparation of unaudited interim consolidated financial statements and are in accordance with International Accounting Standard 34 - Interim Financial Reporting.

The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

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LUFF ENTERPRISES LTD.

Condensed Interim Consolidated Statements of Financial Position

(unaudited)

(expressed in Canadian dollars)

	<u>September 30</u> <u>2022</u>	<u>December 31</u> <u>2021</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,323,215	\$ 3,880,602
Trade and other receivables	376,739	359,614
Prepaid expenses and deposits	93,283	35,614
Investments	765,438	754,422
Inventory	358,949	344,952
Loan receivable	742,772	686,221
Property held for sale (Note 12)	82,995	-
Total current assets	<u>4,743,391</u>	<u>6,061,425</u>
Long-term assets		
Property held for sale	-	1,050,201
Property, plant & equipment	105,181	-
Intangible assets (Note 3)	3,405,488	34,791
Right of use asset (Note 4)	13,881	105,072
Goodwill (Note 3)	1,748,458	-
Total assets	<u>\$ 10,016,399</u>	<u>\$ 7,251,489</u>
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 626,923	\$ 229,671
Acquisition consideration payable (Note 3)	224,370	-
Income taxes payable	40,290	-
Current portion of right of use lease (Note 4)	14,941	111,062
Loans payable (Note 5)	432,983	-
Total current liabilities	<u>1,339,507</u>	<u>340,733</u>
Long-term liabilities		
Loans payable (Note 5)	492,508	427,339
Total liabilities	<u>1,832,015</u>	<u>768,072</u>
Shareholders' equity		
Share capital (Note 6)	76,738,848	72,709,115
Contributed surplus	3,614,977	3,244,154
Accumulated other comprehensive loss	(812,621)	(822,143)
Deficit	(71,356,820)	(68,647,709)
Total shareholders' equity	<u>8,184,384</u>	<u>6,483,417</u>
Total liabilities and shareholders' equity	<u>\$ 10,016,399</u>	<u>\$ 7,251,489</u>

LUFF ENTERPRISES LTD.
Condensed Interim Consolidated Statements of Operations

(unaudited)

(expressed in Canadian dollars)

	For the three months ended		For the nine months ended	
	September 30 2022	September 30 2021	September 30 2022	September 30 2021
Revenue:				
Sales	\$ 100,651	\$ 374,212	\$ 129,822	\$ 653,759
Cost of sales	73,020	194,359	119,358	370,422
Gross profit	27,631	179,853	10,464	283,337
Expenses:				
General and administration	588,984	397,599	1,210,813	1,342,762
Selling and marketing	293,571	197,279	439,919	677,546
Share based compensation (Note 8)	828	-	(3,241)	285,000
Depreciation & amortization	48,524	230,099	144,369	677,161
	931,907	824,977	1,791,860	2,982,469
Loss from operations	(904,276)	(645,124)	(1,781,396)	(2,699,132)
Other (income) expenses				
Interest and other	(21,306)	112,823	(61,340)	260,648
(Gain) loss on investments	(606)	30,102	6,766	10,102
Impairment loss (Note 12)	-	-	1,084,560	-
Bad debt expense	-	50,294	-	50,294
Gain on foreign exchange	(107,721)	-	(146,363)	-
Accretion expense	3,352	1,881	7,115	45,644
	(126,281)	195,100	890,738	366,688
Loss before income taxes	(777,995)	(840,224)	(2,672,134)	(3,065,820)
Income tax expense (recovery)	-	(548)	36,977	14,902
Net loss	(777,995)	(839,676)	(2,709,111)	(3,080,722)
Other comprehensive loss				
Currency translation adjustment	(606)	(4,914)	9,522	329,971
Comprehensive loss	\$ (778,601)	\$ (844,590)	\$ (2,699,589)	\$ (2,750,751)
Basic and diluted loss per share	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding	520,895,248	401,983,032	461,720,242	398,687,444

LUFF ENTERPRISES LTD.

Condensed Interim Consolidated Statements of Shareholders' Equity

(unaudited)

(expressed in Canadian Dollars)

	Common Shares		Contributed Surplus	Accumulated other comprehensive loss	Deficit	Shareholder's Equity
	Number	\$	\$	\$	\$	\$
As at December 31, 2020	390,083,032	72,046,643	3,004,907	(353,786)	(66,251,957)	8,445,807
Share options exercised	500,000	10,000	-	-	-	10,000
Share based compensation	11,400,000	285,000	-	-	-	285,000
Shares to be issued	-	-	164,000	-	-	164,000
Currency translation adjustment	-	-	-	329,971	-	329,971
Net loss for the period	-	-	-	-	(3,080,722)	(3,080,722)
Balance, September 30, 2021	401,983,032	72,341,643	3,168,907	(23,815)	(69,332,679)	6,154,056
As at December 31, 2021	431,539,032	72,709,115	3,244,154	(822,143)	(68,647,709)	6,483,417
Shares issued - services	623,700	9,355	-	-	-	9,355
Shares issued - acquisitions	301,025,193	4,020,378	374,064	-	-	4,394,442
Share based compensation	-	-	(3,241)	-	-	(3,241)
Currency translation adjustment	-	-	-	9,522	-	9,522
Net loss for the period	-	-	-	-	(2,709,111)	(2,709,111)
Balance, September 30, 2022	733,187,925	76,738,848	3,614,977	(812,621)	(71,356,820)	8,184,384

LUFF ENTERPRISES LTD.

Condensed Interim Consolidated Statements of Cash Flows

(unaudited)

(expressed in Canadian Dollars)

	For the nine months ended	
	September 30 2022	September 30 2021
Cash provided by (used for):		
Operating activities:		
Net loss for the period	\$ (2,709,111)	\$ (3,080,722)
Items not affecting cash:		
Share based compensation	(3,241)	285,000
Depreciation & amortization	144,369	677,161
Loss on investments	6,766	10,102
Impairment of assets	1,084,560	-
(Gain) loss on foreign exchange	(56,551)	344,253
Accretion expense	7,115	45,644
Changes in non-cash working capital balances:		
Trade and other receivables	93,443	321,374
Prepaid expenses and deposits	(22,713)	(140)
Inventory	(147,613)	(186,760)
Accounts payable and accrued liabilities	80,019	(160,962)
Income taxes payable	37,504	-
Cash used in operating activities	<u>(1,485,454)</u>	<u>(1,745,050)</u>
Investing activities:		
Purchase of intangible assets	(12,535)	-
Purchase of property, plant and equipment	(23,921)	(61,552)
Proceeds from sale of assets	76,779	-
Cash assumed from business acquisition	6,487	-
Cash provided by (used in) investing activities	<u>46,810</u>	<u>(61,552)</u>
Financing activities:		
Issuance of common shares	-	174,000
Repayment of right of use lease liability	(115,143)	(116,898)
Cash (used in) provided by financing activities	<u>(115,143)</u>	<u>57,102</u>
Decrease in cash and cash equivalents	(1,553,787)	(1,749,500)
Effect of exchange rate changes on cash	(3,600)	(4,505)
Cash and cash equivalents, beginning of period	<u>3,880,602</u>	<u>1,932,363</u>
Cash and cash equivalents, end of period	<u>\$ 2,323,215</u>	<u>\$ 178,358</u>

LUFF ENTERPRISES LTD.

Notes to the Interim Condensed Consolidated Financial Statements

Three and Nine Months Ended September 30, 2022

(Expressed in Canadian Dollars)

Note 1 – Nature of Operations and Going Concern

Luff Enterprises Ltd. (“Luff” or the “Company”) owns and operates leading cannabis e-commerce platforms in both Canada and the United States and is 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.

The Company was incorporated under the Business Corporations Act (British Columbia) on May 30, 2013 under the name Ascent Industries Corp. (“Ascent”). On May 15, 2020 the Company changed its name to Luff Enterprises Ltd. The Company’s head office and principal address is located at Suite 800 – 543 Granville Street, Vancouver, BC V6C 1X8.

The common shares of the Company trade on the Canadian Securities Exchange (the “Exchange”) under the trading symbol “**LUFF**”.

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) on a going concern basis which assumes that the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. In the nine months ended September 30, 2022, the Company incurred a net loss of \$2,709,111 (\$3,080,722 in the nine months ended September 30, 2021). However, the Company had a strong cash position of \$2,323,215 and positive working capital of \$3,403,884 as at September 30, 2022. The Company believes it currently has sufficient cash and working capital to fund its operating expenditures and capital investments for the foreseeable future. However, the continuation of the Company as a going concern will become dependent on the ability of the Company to achieve positive cash flow from operations and/or obtain necessary equity or other financing. The ability of the Company to be successful in obtaining additional future financing cannot be predicted at this present time.

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

Note 2 – Basis of Preparation

a) Statement of compliance and basis of presentation

These unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2022, have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”). The unaudited condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the IASB.

The unaudited interim consolidated financial statements were authorized for issue by the Board of Directors on November 23, 2022.

These unaudited condensed interim consolidated financial statements follow the same accounting policies and methods of application as the consolidated financial statements as at and for the year ended December 31, 2021.

These consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency.

LUFF ENTERPRISES LTD.**Notes to the Interim Condensed Consolidated Financial Statements**

Three and Nine Months Ended September 30, 2022

(Expressed in Canadian Dollars)

Note 2 – Basis of Preparation, continuedb) Basis of consolidation

These interim condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, National Green Biomed Ltd., Rosebud Productions Inc., Coco Pure Beverage Corp., 1192515 BC Ltd., Agrima Botanicals Corp., Pinecone Products Ltd., Agrima Scientific Corp., Wholesome Enterprises Corp., West Fork Holdings Inc., West Fork Holdings NV Inc., Sweet Cannabis Inc., Luff Enterprises LLC. And Wholesome Holdings Inc. All inter-company balances and transactions have been eliminated on consolidation.

Note 3 – Acquisitionsa) Acquisition of NG Biomed

On August 13, 2022, the Company acquired 100% of the issued and outstanding shares of the National Green Biomed group of companies (“NG Biomed”). NG Biomed is a licensed producer of cannabis products for both the recreational and medical consumer markets.

The acquisition of NG Biomed was affected by way of a three-cornered amalgamation in accordance with the provisions of the Business Corporations Act (British Columbia) whereby the securityholders and certain creditors of NG Biomed were issued 161,025,193 common shares in Luff. The Company will also pay cash consideration of up to \$224,370 to certain shareholders of NG Biomed that had a right of rescission related to their investment in NG Biomed. In conjunction with the acquisition, the Company also issued \$500,000 in debt and assumed up to a maximum of \$200,000 in other net liabilities. In conjunction with the acquisition, the Company also issued 6,172,001 warrants with each warrant exercisable to acquire one common share of Luff at a price of \$0.15 per share until December 31, 2023.

The acquisition of NG Biomed was accounted for using the purchase method in accordance with IFRS 3 Business Acquisitions, with the results of the acquired business being included in the consolidated financial statements from its effective acquisition date. The preliminary fair value of the net assets acquired and aggregate consideration given were as follows:

Fair value of net assets acquired	\$
Cash	6,487
Trade and other receivables	48,733
Indemnity receivable	83,550
Inventory	16,465
Prepaid expenses and deposits	33,787
Property, plant and equipment	84,390
Intangible assets	1,832,000
Goodwill	1,748,458
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Total assets	3,853,870
Accounts payable and accrued liabilities	(349,022)
Loans payable	(40,000)
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Total liabilities	(389,022)
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Net assets acquired	3,464,848

LUFF ENTERPRISES LTD.**Notes to the Interim Condensed Consolidated Financial Statements**

Three and Nine Months Ended September 30, 2022

(Expressed in Canadian Dollars)

Note 3 – Acquisition, continuedb) Acquisition of NG Biomed, continued

Consideration given	\$
Common shares	2,415,378
Debentures – debt portion	451,036
Debentures – equity portion	300,000
Warrants	74,064
Acquisition consideration payable	224,370
Total consideration	3,464,848

The Company has been indemnified by a former principal of NG Biomed for any working capital deficiency in excess of \$200,000 at closing. The Company currently estimates this indemnification receivable to be \$83,550. The final purchase price and indemnification receivable remains subject to adjustment based on a final determination of NG Biomed's working capital as at the closing date.

Goodwill acquired with the above business acquisition comprises the value of expected synergies arising from the acquisition and the expertise and reputation of the assembled workforce acquired. None of the goodwill acquired is expected to be deductible for income tax purposes.

The debentures issued in conjunction with the NG Biomed acquisition consisted of a principal amount of \$500,000, bear interest at an annual rate of 10.0% and mature on December 31, 2024. The debentures are also convertible into common shares at the option of the holder, at a price of \$0.025 per share. Should the trading price of the Company's common shares be at or above \$0.05 per share for a period of at least 20 consecutive trading days, the Company shall also have the option to force a conversion of the debentures into common shares.

The fair value of the debt component of the debentures was calculated using an estimated market discount rate of 15% per annum. The fair value of the equity portion of the debentures was calculated using the Black-Scholes option pricing model using the following assumptions: stock price volatility – 292%, risk free interest rate – 3.24%, dividend yield - \$0.00%, and expected life of 28.5 months.

The fair value of the warrants issued in conjunction with the NG Biomed acquisition were calculated using the Black-Scholes option pricing model using the following assumptions: stock price volatility – 292%, risk free interest rate – 3.24%, dividend yield - \$0.00%, and expected life of 16.5 months.

The Company integrated the operations of NG Biomed immediately after the acquisition date; therefore, it was impracticable for the Company to disclose the acquiree's revenue and earnings in its consolidated financial statements since the acquisition date.

Note 3 – Acquisitions, continued**c) Acquisition of Herbal Dispatch**

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

Herbal Dispatch did not meet the definition of a business under IFRS 3 Business Combinations prior to the acquisition. The acquisition is therefore accounted for in accordance with IFRS 2 Share-based Payments, whereby the Company acquired the assets of Herbal Dispatch in exchange for commons shares in Luff.

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

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

The preliminary value of the common shares issued and assets acquired of Herbal Dispatch was \$1,605,000. The assets acquired primarily consisted of the Herbal Dispatch customer platform and were measured at the estimated fair value of the common shares issued. The common shares were initially measured at a deemed price of \$0.015 per share, but then discounted for the uncertainty that certain of the milestone events related to the share consideration being held in escrow may not be achieved.

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

The above purchase price allocations are preliminary, and were conducted based on a preliminary evaluation of the fair value of the assets and liabilities acquired and will remain preliminary until the Company completes its final evaluation.

LUFF ENTERPRISES LTD.**Notes to the Interim Condensed Consolidated Financial Statements**

Three and Nine Months Ended September 30, 2022

(Expressed in Canadian Dollars)

Note 4 – Obligations Under Right-of-Use Lease

The Company recognizes obligations under right of use leases, which represent the present value of future lease payments due pursuant to real property leases. Obligations under right of use leases at September 30, 2022 bear interest at annual rates of 4.25% (December 31, 2021 – 4.25%) per annum and are repayable in current monthly blended principal and interest payments of \$5,050 (December 31, 2021 - \$16,320), and maturing in December 2022. These lease liabilities correspond with right of use assets with a net book value of \$13,881 at September 30, 2022 (December 31, 2021 - \$105,072).

Future minimum lease payments required over the five years for obligations under right of use leases were as follows:

	September 30 2022 \$	December 31 2021 \$
Within one year	15,150	115,782
Thereafter	-	-
Total minimum lease payments	15,150	115,782
Less: amount representing interest	(209)	(4,720)
Present value of minimum lease payments	14,941	111,062
Less: current portion	(14,941)	(111,062)
	-	-

Note 5 – Loans Payable

	September 30 2022 \$	December 31 2021 \$
Debenture A	432,983	427,339
Debentures B	452,508	-
CEBA loan	40,000	-
	925,491	427,339
Less: current portion	(432,983)	-
	492,508	427,339

LUFF ENTERPRISES LTD.**Notes to the Interim Condensed Consolidated Financial Statements**

Three and Nine Months Ended September 30, 2022

(Expressed in Canadian Dollars)

Note 5 – Loans Payable, continued**Debenture A**

The Company has an outstanding unsecured convertible debenture in the principal amount of \$438,000 (the “Debenture A”) owing to a company controlled by a director and shareholder of the Company. The Debenture A matures on May 23, 2023 and is convertible into 17,520,000 Common shares of the Company at the election of the shareholder at any time, and at the Company’s election, during any period where the 20-day weighted average trading price of the Company’s common shares is \$0.10 or greater.

The Debenture A was discounted to its net present value using a coupon rate of 6% and a yield rate of 8%. The original debt discount balance of \$22,576 is being amortized over the term of the note using the effective interest rate.

Debentures B

In August 2022, the Company issued new convertible debentures (the “Debentures B”) with a principal amount of \$500,000 in conjunction with the acquisition of NG Biomed (*Note 3*). The Debentures B have an annual coupon rate of 10% per annum, payable monthly, and mature on December 31, 2024, the Debentures B 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 period of 20 consecutive trading days.

The Debentures B were discounted to their net present value using a coupon rate of 10% and a yield rate of 15%. The original debt discount balance of 48,964 is being amortized over the term of the debentures using the effective interest rate.

CEBA loan

In conjunction with the NG Biomed acquisition, the Company assumed a loan received from the Canada Emergency Business Account (“CEBA”). The CEBA loan bears no interest until January 1, 2024 and then at 5.0% per annum thereafter. The CEBA loan matures on December 31, 2025. Assuming the CEBA loan is repaid prior to December 31, 2023, the Company anticipates that a portion of the CEBA loan will be forgiven. The Company has recorded the CEBA loan at \$40,000, representing its original issue amount of \$60,000 less expected loan forgiveness amount of \$20,000 as the Company expects to repay the CEBA loan prior to December 31, 2023.

Note 6 – Share Capital

<i>Authorized – Unlimited common shares with no par value</i>	Number of shares	Amount \$
Issued and outstanding at December 31, 2021	431,539,032	72,709,115
Activity during the nine months ended September 30, 2022:		
Shares issued – services rendered	623,700	9,355
Shares issued – NG Biomed (<i>Note 3</i>)	161,025,193	2,415,378
Shares issued – Herbal Dispatch (<i>Note 3</i>)	140,000,000	1,605,000
Issued and outstanding at September 30, 2022	733,187,925	76,738,848

LUFF ENTERPRISES LTD.**Notes to the Interim Condensed Consolidated Financial Statements**

Three and Nine Months Ended September 30, 2022

(Expressed in Canadian Dollars)

Note 6 – Share Capital, continued

During the nine months ended September 30, 2022, the Company issued 623,700 common shares at a deemed price of \$0.015 per share to Camilla Advisory Group Inc., as payment for past services rendered to the Company by the Company's Chief Financial Officer.

Note 7 – Share Purchase Warrants

	Amount	Weighted Average Exercise Price per Share \$
Balance as at December 31, 2021	39,656,000	0.042
Warrants issued – NG Biomed (Note 3)	6,172,001	0.150
Balance as at September 30, 2022	45,828,001	0.057

The following table summarizes the warrants that were outstanding as at September 30, 2022:

Exercise Price	Number of Warrants	Expiry Date
\$0.05	27,656,000	October 26, 2024
\$0.025	12,000,000	December 23, 2022
\$0.15	6,172,001	December 31, 2023

Note 8 – Share-Based Compensation

The Company has adopted a stock option plan and a restricted share unit ("RSU") plan for the benefit of its directors, officers, employees and other key personnel. The stock option plan provides that the option terms and price shall be fixed by the directors subject to the price restrictions and other requirements of the Exchange. Common shares reserved for issuance pursuant to the RSU plan and the stock option plan, on a combined basis, shall not exceed 10% of the Company's issued and outstanding common shares, from time to time.

Stock options

The Company recorded the following activity related to stock options during the nine months ended September 30, 2022:

	Amount	Exercise Price per Share \$
Balance, December 31, 2021	2,000,000	0.02
Stock options forfeited	(1,600,000)	0.02
Balance, September 30, 2022	400,000	0.02

The outstanding 400,000 stock options expire on July 28, 2025. Of this amount, 300,000 stock options were vested and exercisable at September 30, 2022.

LUFF ENTERPRISES LTD.**Notes to the Interim Condensed Consolidated Financial Statements**

Three and Nine Months Ended September 30, 2022

(Expressed in Canadian Dollars)

Note 8 – Share-Based Compensation, continued**Restricted share units**

During the nine months ended September 30, 2022, the Board of Directors cancelled all of the outstanding RSUs. As at September 30, 2022, no RSUs were outstanding (December 31, 2021 – 900,000 RSUs outstanding).

Note 9 – Segmented Information

The Company generates revenue in one reportable segment: cannabis products, and its activities are conducted in two geographic locations: Canada and the United States. All activities in both geographical locations are related to cannabis products and all material assets and liabilities are related to cannabis products. In the comparative periods ended September 30, 2021, the Company only generated revenue in the United States. The Company expanded its sales into Canada in September 2022 following the acquisition of NG Biomed (*Note 3*).

Selected financial information by geographic location is disclosed as follows:

	Three months ended		Nine months ended	
	September 30	September 30	September 30	September 30
	2022	2021	2022	2021
	\$	\$	\$	\$
Revenue				
Canada	25,154	-	25,154	-
United States	75,497	374,212	104,668	653,759
	100,651	374,212	129,822	653,759

As at September 30, 2022	Canada	United States	Total
	\$	\$	\$
Property held for sale	-	82,995	82,995
Property, plant and equipment	105,181	-	105,181
Intangible assets	3,405,488	-	3,405,488
Goodwill	1,748,458	-	1,748,458

As at December 31, 2021, all of the Company's property, plant and equipment and intangible assets were located in the United States.

LUFF ENTERPRISES LTD.**Notes to the Interim Condensed Consolidated Financial Statements**

Three and Nine Months Ended September 30, 2022

(Expressed in Canadian Dollars)

Note 10 – Related Party Transactions

Balances and transactions between the Company and its wholly owned and controlled subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company and other related parties are disclosed below:

	Three months ended		Nine months ended	
	September 30	September 30	September 30	September 30
	2022	2021	2022	2021
	\$	\$	\$	\$
Salaries, benefits and management fees	80,929	166,094	214,765	700,103
Directors' fees	27,184	27,000	75,184	81,000
Stock based compensation	-	-	-	285,000
Total compensation to key management	108,113	193,094	289,949	1,066,103

The amounts disclosed in the table are the amounts recognized as an expense related to key management personnel and directors during the respective reporting periods.

During the three and nine months ended September 30, 2022, the Company incurred interest expense of \$6,568 and \$19,704 (three and nine months ended September 30, 2021 - \$6,568 and \$19,704), respectively, related to a convertible debenture owing to a director and shareholder of the Company.

Note 11 – Capital Management

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and to maintain adequate levels of funding to support its ongoing operations and development. The Company's capital consists of items included in shareholders' equity and debt, which was as follows:

	September 30	December 31
	2022	2021
	\$	\$
Current portion of right of use lease	14,941	111,062
Current portion of loans payable	432,983	-
Loans payable	492,508	427,339
Funded debt	940,432	538,401
Shareholders' equity	8,184,384	6,483,417
Total capital	9,124,816	7,021,818

LUFF ENTERPRISES LTD.**Notes to the Interim Condensed Consolidated Financial Statements**

Three and Nine Months Ended September 30, 2022

(Expressed in Canadian Dollars)

Note 11 – Capital Management, continued

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares or seek additional debt financing to ensure that it has sufficient working capital to meet its short-term business requirements.

Note 12 – Impairment

Nine months ended	September 30 2022	December 31 2021
	\$	\$
Impairment of assets held for sale	937,694	-
Impairment of inventory	146,866	-
Impairment of assets	1,084,560	-

In July 2022, the Company entered into a definitive agreement to sell certain assets and licenses at its Portland Oregon facility for cash consideration of USD \$120,000. As a result, during the nine months ended September 30, 2022, the Company recognized an impairment loss of \$1,084,560 to reduce the carrying amount of the disposed assets to their estimated net realizable value. At September 30, 2022, USD \$60,000 remained outstanding pending the transfer of a cannabis license. The transfer of the cannabis license was completed in November 2022.

Note 13 – Financial Instruments

The financial instruments recognized on the consolidated statement of financial position are comprised of cash and cash equivalents, trade and other receivables, investments, loan receivable, trade and other payables, right of use lease liabilities, and loans payable.

Fair value

The carrying values of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their fair values due to the short-term nature of these instruments.

In evaluating fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and different valuation techniques may have a material effect on the estimated fair value amounts. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

LUFF ENTERPRISES LTD.**Notes to the Interim Condensed Consolidated Financial Statements**

Three and Nine Months Ended September 30, 2022

(Expressed in Canadian Dollars)

Note 13 – Financial Instruments, continued

Fair value measurements of investments, loan receivable, and loans payable are as follows:

	Carrying Amount	Fair Value Measurements		
		Level 1	Level 2	Level 3
	\$	\$	\$	\$
September 30, 2022				
Investments	765,438	-	-	765,438
Loan receivable	742,772	-	742,772	-
Loans payable	925,491	-	925,491	-
December 31, 2021				
Investments	754,422	14,422	-	740,000
Loan receivable	686,221	-	686,221	-
Loans payable	427,339	-	427,339	-

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

As at December 31, 2021, the Company measured its investment in Golden Ridge Resources Ltd. at Level 1 fair value. The company sold this investment during the nine months ended September 30, 2022 for net proceeds of \$7,657.

Level 2 – quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

As at September 30, 2022 and December 31, 2021, the Company measured its loan to Enhanced Pet Sciences Corp. and loans payable at Level 2 fair value as there is no active market for these items.

Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The investment in Enhanced Pet Sciences Corp. is measured at fair value, but as the investment is privately held and there is no quoted market price for its common shares, fair value was estimated using Level 3 inputs.

There were no transfers between levels 1, 2 and 3 inputs during the period.

Risk Management

The Company is exposed to risks of varying degrees of significance from its use of financial instruments which could affect its ability to achieve its strategic objectives for growth and stakeholder returns. The principal risks to which the Company is exposed, and the actions taken to manage them, are described below.

LUFF ENTERPRISES LTD.**Notes to the Interim Condensed Consolidated Financial Statements**

Three and Nine Months Ended September 30, 2022

(Expressed in Canadian Dollars)

Note 13 – Financial Instruments, continued**Credit Risk**

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its cash and cash equivalents and trade and other receivables. The risk exposure is limited to their carrying amounts at the balance sheet date. The risk is mitigated by holding cash and cash equivalents with highly rated financial institutions. The Company does not invest in asset-backed deposits or investments and does not expect any credit losses. Trade and other receivables primarily consist of trade accounts receivable and Goods and Services Tax recoverable (“GST”).

The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk but has limited risk as the majority of sales are transacted with credit cards.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument and associated cash flows might be adversely affected by a change in interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company has obtained primarily fixed rate debt which limits its exposure to interest rate fluctuations.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company’s approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

At September 30, 2022 the undiscounted contractual obligations related to financial liabilities were as follows:

	Less than 1 year \$	1-5 Years \$	Total \$
Accounts payable and accrued liabilities	626,923	-	626,923
Loans payable	438,000	540,000	978,000
Right of use lease	15,150	-	15,150

The Company is also committed to make payments of \$28,385 over the next twelve months related to short term leases.

Foreign Currency Risk

The Company is exposed to foreign currency risk in relation to its loan receivable and a portion of its cash and cash equivalents, which are denominated in USD. Based on the balances of cash and loan receivables denominated in USD at September 30, 2022, a 5% increase or decrease in the exchange rate would result in a foreign currency gain or loss of \$80,500. As at September 30, 2022, the Company held cash and cash equivalents denominated in USD of USD \$591,835.

Note 14 – Comparative Figures

Certain figures in the comparative periods have been reclassified to conform to the current period’s presentation.