

Interim MD&A – Quarterly Highlights

Luff Enterprises Ltd.

(Formerly Ascent Industries Corp.)

First Quarter ended March 31, 2020

(Stated in Canadian Dollars)

Dated May 28, 2020

Luff Enterprises Ltd.

Interim MD&A – Quarterly Highlights

For the First Quarter ended March 31, 2020

Preface

The following Interim MD&A – Quarterly Highlights of Luff Enterprises Ltd. (the “**Company**”) is prepared in accordance with the provisions of S. 2.2.1 of BCSC Instrument 51-102F2 as it relates to venture issuers. It should be read in conjunction with the Company’s audited consolidated financial statements and related notes for the year ended December 31, 2019 (the “**2019 Financial Statements**”) and the unaudited consolidated financial statements and related notes for the quarterly period ended March 31, 2020 (the “**2020 First Quarter Financial Statements**”), which were prepared in accordance with International Financial Reporting Standards (“**IFRS**”). Unless otherwise noted, all currency amounts are in Canadian dollars.

Forward looking information

This MD&A contains “forward-looking information and statements” that are subject to risk factors set out under the caption *Caution regarding forward looking statements* later in this document. The reader is cautioned not to place undue reliance on forward-looking statements.

Review and Approval by the Board of Directors

The Board of Directors, on the recommendation of its Audit Committee, approved the contents of this MD&A on May 28, 2020.

Profile and strategy

The Company was incorporated with the name Ascent Industries Corp. under the Business Corporations Act (British Columbia) on May 30, 2013. Its head office, principal and registered records office address is located at Suite 800 - 543 Granville Street, Vancouver, British Columbia V6C 1X8. The Company completed an amalgamation with Paget Minerals Corp. on August 9, 2018 and subsequently listed its common shares for trading on the Canadian Securities Exchange. Effective May 15, 2020, the Company changed its name to Luff Enterprises Inc., to reflect its new business direction as a producer and distributor of branded cannabis and industrial hemp derived CBD products in the United States.

Risks and Uncertainties

The Company operates in the USA through wholly owned subsidiaries in Nevada and Oregon with licenses to produce, process and distribute cannabis and processed cannabis products including cannabis oils and licenses to process and distribute industrial hemp. As a result of the CCAA process in Canada, the operation of the US subsidiaries has been significantly curtailed. On May 26, 2020 pursuant to a Supreme Court of British Columbia order the CCAA process was formally completed and the Monitor discharged.

For a comprehensive discussion of the risks and uncertainties facing the Company as it commences to reactivate its business operations in Oregon and Nevada unfettered by the CCAA process, the reader should consult the Company’s MD&A for the Fourth Quarter and 12 Months Ended December 31, 2019, accompanying the audited financial statements for the year ended 2019, which were filed on SEDAR on May 11, 2020.

Luff Enterprises Ltd.

Interim MD&A – Quarterly Highlights

For the First Quarter ended March 31, 2020

Consolidated analysis of financial condition, financial performance and cash flows

The following highlights the Company's overall performance for three months ended March 31, 2020 and 2019 and includes financial information relating to the Company's establishment in Denmark and Canadian Operations, which no longer included cannabis cultivation, processing, production, product research and forward development and distribution:

	3 months ended Mar 31, 2020 (\$)	3 months ended Mar 31, 2019 (\$)	Change
Sales	5,068	435,234	(99%)
Gross margin	4,053	(323,184)	(101%)
Operating expenses	(1,723,380)	(3,523,809)	(51%)
Other (expense) / income	(877,860)	1,292,270	(168%)
Net loss	(2,664,303)	(2,554,723)	(4%)
Net loss per share – basic and diluted	(0.01)	(0.01)	
Weighted average Common Shares outstanding:			
Basic	331,096,802	320,151,457	3%
Diluted			

Consolidated Results Commentary

Q1	
Earnings Summary	EPS: \$(0.01) per share
	<p>By March 31, 2019, the Company had entered CCAA proceedings in Canada effectively shutting down operations in all locations. With high operating costs in conjunction with low capacity the 2019 operations yielded poor margins. The operating losses of the prior period were replaced by significant legal costs associated with the last phase of the CCAA process. The prior period recognition of a change in the derivative liability resulted in a one-time income inclusion of \$1,292,270.</p>

Luff Enterprises Ltd.

Interim MD&A – Quarterly Highlights

For the First Quarter ended March 31, 2020

Balance Sheet Analysis, Liquidity, and Capital Resources

	3 months ended Mar 31, 2020 (\$)	3 months ended Mar 31, 2019 (\$)	Change
Cash and cash equivalents at end of period	1,819,505	3,993,021	(54%)
Total assets at end of period	11,986,498	13,665,397	(12%)
Current liabilities	(276,301)	(463,367)	(40%)
Working Capital	2,754,977	4,725,063	(42%)

Balance Sheet, Liquidity, and Capital Resources Commentary

Q1

Financial position Summary

▼ Working Capital: (\$1,970,086) or (42%)

During the quarter the Company's primary operating uses of cash were:

- \$325,000 in severance to former CEO.
- Management salaries of approximately \$186,215.
- The increase over the prior period reflects the result of the sale in 2019 of the Canadian assets net of settlements.
- All significant liabilities & long-term liabilities were settled with the proceeds of the sale of assets and the ordinary course payments of the obligations under leases were made.
- Accounts payable related to professional fees in the amount of \$180,000 and settlement with CRA on a late claim on remittance penalties were material additions to Current liabilities.

Luff Enterprises Ltd.

Interim MD&A – Quarterly Highlights

For the First Quarter ended March 31, 2020

Summary Cash Flows

	3 months ended Mar 31, 2020 (\$)	3 months ended Mar 31, 2019 (\$)	Change
Cash and cash equivalents at end of period	1,819,505	1,245,611	46%
Cash used in operating activities	(1,608,890)	(21,458,584)	(93%)
Cash used in investing activities	(727,925)	3,218,427	(123%)
Cash from financing activities	(1,048,293)	18,107,520	(106%)

Cash Flows Commentary

Q1	
Cash Flow Summary	<p>▼ Cash Used in the period: \$2,173,516,</p> <ul style="list-style-type: none">• Cash used in operating decreased due to reduced operations.• \$727,925 as a short-term loan to Enhanced Pet Sciences, in further support of the Company's interests in the US Hemp market.• Financing cash in 2019 was due to sale of the Canadian assets.

Description of business and developments – material events likely to have material effects on future operating results

Order for Protection under CCAA

On March 1, 2019, by Order of the Supreme Court of British Columbia, the Company along with the wholly owned subsidiaries, Agrima, Bloom Holdings Ltd., Bloom Meadows Corp., Pinecone Products Ltd., Agrima Scientific Corp., and West Fork Holdings NV Inc. (the "Petitioners") were granted protection under CCAA from its creditors under Vancouver Registry No. S-192188. Ernst & Young Inc. was appointed as Monitor of the Petitioners and their reports can be found at:

<https://documentcentre.eycan.com/Pages/Main.aspx?SID=1449>

Management developed a plan of arrangement through negotiation with the major creditors.

On December 19, 2019, by order of the Supreme Court of British Columbia, the Company settled outstanding claims in the amount of \$17,344,083 pursuant to the Plan of Compromise and Arrangement. The allowable claims were segregated into two classes:

Luff Enterprises Ltd.

Interim MD&A – Quarterly Highlights

For the First Quarter ended March 31, 2020

- (i) the unaffected claims: claims below \$11,100 and paid in full; and
- (ii) the affected claims: claims affected by the compromise - 51% of the original allowed amount paid.

In addition to the cash settlement of \$9,361,913 paid in final settlement, the Company issued 35,572,372 common shares with an aggregate value of \$889,309 to eligible affected shareholders on March 03, 2020.

The Company recorded a loss on its settlement under CCAA proceedings in the amount of \$5,280,251.

On March 6, 2020, the Company announced that it had implemented its first amended and restated consolidated plan of compromise, arrangement and organization (the "Plan") under the Companies' Creditors Arrangement Act ("CCAA"). Distributions under the Plan, as well as the issuance of common shares of the Company that were to be issued pursuant to the terms of the Plan, have been completed. The Company was unable, however, to obtain a further extension of the stay of proceedings provided by the order obtained by the Company on January 28, 2020. Accordingly, the stay of proceedings expired on March 6, 2020 and the Company's CCAA proceedings concluded upon expiry of the stay.

Effective April 8, 2019 and pursuant to an order issued by the Supreme Court of British Columbia on March 25, 2019 the Company sold Canadian operating assets to BZAM Management Inc., and subsequently commenced winding up of its Canadian and Denmark operations.

Sale of Canadian Operating Assets to BZAM

On April 8, 2019 the Company received net consideration of \$18,173,216 for the assets of the Company as follows:

Gross Consideration	\$19,152,056
Less Commission	(978,840)
Inventory	(541,877)
Prepays	(103,221)
Deposits & Construction in progress	(14,432,232)
Property Plant & Equipment	(10,674,398)
Assumption of long-term debt	8,518,259
Assumption of derivative debt	1,976,063
Net gain over net book value	\$2,915,810

Change in Management

Effective May 15, 2020, the Company re-appointed Mr. Philip Campbell to its board of directors and to the office of Chief Executive Officer to lead the execution of the Company's streamlined business plan focused on the reactivation of its U.S. operations. Mr. Campbell is a founder of the Company and previously served as the Company's CEO. Mr. Campbell is included on the management slate of proposed directors of the Company to be considered for election at the Company's upcoming AGM to be held on Wednesday, June 24, 2020.

Liquidity and capital resources

The Company had previously announced its intent to expand operation in California, Nevada and Denmark. In light of the Company's financial position upon exiting CCAA, the Company will now focus on the business of production and sale of cannabis and industrial hemp derived CBD products in the United States.

Luff Enterprises Ltd.

Interim MD&A – Quarterly Highlights

For the First Quarter ended March 31, 2020

Related party transactions

In the three months ended March 31, 2020 payments to senior management in the form of salaried compensation was \$186,215.

Commitments

There were no new commitments in the period.

Luff Enterprises Ltd.

Interim MD&A – Quarterly Highlights

For the First Quarter ended March 31, 2020

Additional information

Additional information relating to the Company is available on SEDAR at www.sedar.com and on the dedicated webpage of the Court appointed monitor at <https://documentcentre.eycan.com/Pages/Main.aspx?SID=1449>

Corporation information

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Mark Lotz
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