

**LUFF ENTERPRISES LTD.**  
**(formerly Ascent Industries Corp.)**

**Condensed Consolidated Interim Financial Statements**  
(Unaudited)

**Three and Six Months Ended June 30, 2020 and 2019**  
(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 condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

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

## TABLE OF CONTENTS

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION .....	3
CONDENSED CONSOLIDATED INTERIM STATEMENT OF OPERATIONS.....	4
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY .....	5
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOW .....	6
NOTE 1 – NATURE OF OPERATIONS AND GOING CONCERN.....	7
NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES .....	7
NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED.....	8
NOTE 3 – SALE OF CANADIAN OPERATING ASSETS.....	8
NOTE 4 – LOSS ON WRITE-DOWN OF ASSETS .....	8
NOTE 5 – CCAA SETTLEMENT .....	8
NOTE 5 – CCAA SETTLEMENT, CONTINUED .....	9
NOTE 6 – TRADE AND OTHER RECEIVABLES .....	9
NOTE 7 – PREPAID EXPENSES .....	9
NOTE 8 – INVESTMENTS .....	10
NOTE 9 – PROPERTY, PLANT AND EQUIPMENT .....	10
NOTE 9 – PROPERTY, PLANT AND EQUIPMENT, CONTINUED.....	11
NOTE 10 – INTANGIBLE ASSETS .....	12
NOTE 11 – LOAN RECEIVABLE .....	13
NOTE 12 – OBLIGATIONS UNDER RIGHT-OF-USE LEASE .....	13
NOTE 13 – SHORT TERM DEBT PAYABLE .....	13
NOTE 14 – CONVERTIBLE DEBENTURE AND LONG-TERM LIABILITIES .....	13
NOTE 15 – SHARE CAPITAL .....	14
NOTE 16 – SHARE PURCHASE WARRANTS.....	14
NOTE 17 – SHARE-BASED COMPENSATION .....	15
NOTE 18 – SUPPLEMENTAL CASH FLOW INFORMATION.....	15
NOTE 19 – SEGMENTED INFORMATION .....	16
NOTE 20 – RELATED PARTY TRANSACTIONS.....	17
NOTE 21 – CAPITAL MANAGEMENT .....	17
NOTE 22 – FINANCIAL INSTRUMENTS .....	17
NOTE 23 – SUBSEQUENT EVENTS.....	19

**LUFF ENTERPRISES LTD. (FORMERLY ASCENT INDUSTRIES CORP.)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION**  
**(Expressed in Canadian Dollars)**  
**As at June 30, 2020 and December 31, 2018**

	June 30, 2020	December 31, 2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 825,015	\$ 3,993,021
Trade and other receivables (Note 6)	795,789	746,877
Prepaid expenses (Note 7)	116,542	72,030
Investments (Note 8)	392,502	376,502
Inventory	1,192	-
	<u>2,131,040</u>	<u>5,188,430</u>
Long-term assets		
Property, plant & equipment, net (Note 9)	6,981,200	7,368,860
Intangible assets (Note 10)	1,054,959	1,056,087
Note receivable (Note 11)	727,925	-
Right of use asset (Note 12)	-	52,020
	<u>\$ 10,895,124</u>	<u>\$ 13,665,397</u>
<b>Liabilities and shareholders' equity</b>		
Current liabilities		
Accounts payable, payroll and accrued liabilities	\$ 128,941	\$ 413,888
Long-term liabilities		
Right of use lease (Note 12)	-	49,479
Loans payable (Note 14)	423,577	-
	<u>552,518</u>	<u>463,367</u>
Shareholders' equity		
Share capital (Note 15)	71,605,330	70,513,445
Contributed surplus	1,734,012	1,572,639
Share based reserve (Note 17)	1,241,312	1,241,312
Accumulated other comprehensive income	217,810	(311,456)
Deficit	(64,455,858)	(59,813,910)
Total equity	<u>10,342,606</u>	<u>13,202,030</u>
Total liabilities and equity	<u>\$ 10,895,124</u>	<u>\$ 13,665,397</u>

**LUFF ENTERPRISES LTD. (FORMERLY ASCENT INDUSTRIES CORP.)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF OPERATIONS**

(Expressed in Canadian Dollars)

Three and Six Months Ended June 30, 2020 and June 30, 2019

	3 Months June 30, 2020	3 Months June 30, 2019	6 Months June 30, 2020	6 Months June 30, 2019
Revenue:				
Sales	\$ 48	\$ 182,322	\$ 5,116	\$ 617,556
Cost of sales	5,650	410,163	6,665	1,168,581
Gross margin	<u>(5,602)</u>	<u>(227,841)</u>	<u>(1,549)</u>	<u>(551,025)</u>
Expenses:				
General and administration	1,118,563	1,806,541	2,639,570	4,396,768
Selling and marketing	17,518	(20,685)	17,518	518,847
Research & development	-	(20,474)	-	171,329
Depreciation & amortization	202,866	202,247	405,240	404,494
	<u>1,338,947</u>	<u>1,967,629</u>	<u>3,062,328</u>	<u>5,491,438</u>
Loss from operations	<u>(1,344,549)</u>	<u>(2,195,470)</u>	<u>(3,063,877)</u>	<u>(6,042,463)</u>
Other (income) expenses				
Interest and other	168,664	135,674	180,112	1,614,671
Share issuance cost	161,373	-	161,373	-
Unrealized gain on investments	(16,000)	-	(16,000)	-
Gain on sale	-	-	-	(2,915,810)
Loss on disposal	-	-	-	132,891
CCAA Settlement	-	1,200,000	956,425	1,200,000
Bad debt expense	285,512	-	285,512	-
Accretion expense	8,152	-	8,152	-
	<u>607,701</u>	<u>1,335,674</u>	<u>1,575,574</u>	<u>31,752</u>
Loss Before Income Taxes and Comprehensive Income	<u>(1,952,250)</u>	<u>(3,531,144)</u>	<u>(4,639,451)</u>	<u>(6,074,215)</u>
Income tax expense	<u>2,497</u>	<u>742</u>	<u>2,497</u>	<u>12,395</u>
Net Loss	<u>(1,954,747)</u>	<u>(3,531,885)</u>	<u>(4,641,948)</u>	<u>(6,086,610)</u>
Comprehensive Income				
Currency translation adjustment	<u>424,090</u>	<u>(41,312)</u>	<u>529,266</u>	<u>(743,736)</u>
Comprehensive Loss	<u>\$ (1,528,160)</u>	<u>\$ (3,573,197)</u>	<u>\$ (4,112,682)</u>	<u>\$ (6,830,346)</u>
Basic and diluted loss per share	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
Weighted average number of common shares outstanding, diluted	<u>359,403,829</u>	<u>320,151,457</u>	<u>359,403,829</u>	<u>320,151,457</u>

**LUFF ENTERPRISES LTD. (FORMERLY ASCENT INDUSTRIES CORP.)**

**Condensed Interim Consolidated Statement of Changes in Shareholders' Equity**

**(Expressed in Canadian Dollars)**

**Six Months Ended June 30, 2020 and Periods Ended December 31, 2019 and 2018**

	Common Shares		Common shares to be issued \$	Share-based reserve \$	Warrant reserve \$	Contributed Surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Shareholders' Equity \$
	Number	\$	\$	\$	\$	\$	\$	\$	\$
<b>As at June 1, 2018</b>	218,683,015	31,576,460	8,673,862	507,151	-	1,572,639	23,671	(20,299,670)	22,054,113
Exercise of warrants (for private placement A)	-	916,667	-	-	-	-	-	-	916,667
Exercise of warrants (for private placement B)	3,666,666	-	-	-	-	-	-	-	-
Units issued as a deposit	2,777,778	-	-	-	-	-	-	-	-
Shares issued as a deposit	416,667	1,150,000	-	-	-	-	-	-	1,150,000
Units issued for services	205,556	-	-	-	-	-	-	-	-
Shares issued for services	458,810	271,200	-	-	-	-	-	-	271,200
Shares issued for equipment	1,412,152	621,647	-	-	-	-	-	-	621,647
Shares issued through First Circle acquisition	562,500	225,000	250,000	-	-	-	-	-	475,000
Units issued for private placement D	30,000,000	12,000,000	(8,673,862)	-	-	-	-	-	3,326,138
Units issued for finders fees	510,407	204,163	-	-	-	-	-	-	204,163
Units issued through public offering	48,085,500	19,234,200	-	-	-	-	-	-	19,234,200
Units issued through Paget Mineral acquisition	9,542,643	3,796,748	-	-	-	-	-	-	3,796,748
Exercise of warrants (for private placement D)	3,829,763	1,970,232	298,597	-	-	-	-	-	2,268,829
Share issuance costs	-	(1,751,469)	-	-	-	-	-	-	(1,751,469)
Share based compensation	-	-	-	734,161	-	-	-	-	734,161
Foreign currency reserve	-	-	-	-	-	-	(220,978)	-	(220,978)
Net loss for the period	-	-	-	-	-	-	-	(17,367,855)	(17,367,855)
<b>As at December 31, 2018</b>	320,151,457	70,214,848	548,597	1,241,312	-	1,572,639	(197,307)	(37,667,525)	35,712,564
Shares issued	-	298,597	(298,597)	-	-	-	-	-	-
Shares written off	-	-	(250,000)	-	-	-	-	250,000	-
Foreign currency reserve	-	-	-	-	-	-	(114,149)	-	(114,149)
Net loss for the period	-	-	-	-	-	-	-	(22,396,385)	(22,396,385)
<b>As at December 31, 2019</b>	320,151,457	70,513,445	-	1,241,312	-	1,572,639	(311,456)	(59,813,910)	13,202,030
Shares issued for services	7,200,000	180,000	-	-	-	-	-	-	180,000
Shares issued for debt	35,572,372	889,309	-	-	-	-	-	-	889,309
Warrants issued	-	-	-	-	-	161,373	-	-	161,373
Convertible debenture	-	22,576	-	-	-	-	-	-	22,576
Foreign currency reserve	-	-	-	-	-	-	529,266	-	529,266
Net loss for the period	-	-	-	-	-	-	-	(4,641,948)	(4,641,948)
<b>Balance, June 30, 2020</b>	362,923,829	\$ 71,605,330	\$ -	\$ 1,241,312	\$ -	\$ 1,734,012	\$ 217,810	\$ (64,455,858)	\$ 10,342,606

**LUFF ENTERPRISES LTD. (FORMERLY ASCENT INDUSTRIES CORP.)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOW**  
**(Expressed in Canadian Dollars)**  
**Three and Six Months Ended June 30, 2020 and 2019**

	6 months ended June 30, 2020	6 months ended June 30, 2019
Cash provided by (used for):		
Operating activities:		
Net Loss for the period	\$ (4,641,948)	\$ (6,086,609)
Items not affecting cash:		
Depreciation & amortization	405,240	404,494
Accretion expense	8,152	-
Gain on sale of assets	-	(2,915,810)
Unrealized gain on investments	(16,000)	-
Warrants issued	161,373	-
Shares issued for services	180,000	-
Debenture	438,000	-
CCAA Settlement	889,266	1,200,000
Loss on disposal	-	132,981
Changes in non-cash working capital balances:		
Receivables	386,036	19,169,708
Prepaid expenses	(40,813)	33,474
Inventory	(1,187)	503,749
Commission payable	-	978,840
Accounts payable, payroll and accrued liabilities	(75,608)	(411,398)
Cash provided (used) by operating activities	<u>(2,307,490)</u>	<u>13,009,429</u>
Investing activities:		
Purchase property, plant and equipment	(11,661)	-
Note receivable, related party	(727,925)	-
Cash used by investing activities	<u>(739,586)</u>	<u>-</u>
Financing activities:		
Change in right of use asset	2,541	-
Advances from related parties	(372,529)	(105,536)
Cash used by financing activities	<u>(369,988)</u>	<u>(105,536)</u>
Increase (Decrease) in cash and cash equivalents	(3,417,064)	12,903,893
Effect of exchange rate changes on cash	249,058	2,659,645
Cash and cash equivalents, beginning of period	<u>3,993,021</u>	<u>1,339,027</u>
Cash and cash equivalents, end of period	<u>\$ 825,015</u>	<u>\$ 16,902,565</u>

### Note 1 – Nature of Operations and Going Concern

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. (“Luff”). The Company's head office and principal address is located at Suite 800 – 543 Granville Street, Vancouver, BC V6C 1X8.

The condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2020 should be read in conjunction with the consolidated financial statements for the year ended December 31, 2019.

The Company's primary activities relate to the production of cannabinoid consumer packaged goods using THC free product. The Company holds licenses for cannabis processing, production, research, product and brand development, and distribution that could be used in the future.

These 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 six months ended June 30, 2020 the Company has generated \$5,116 in revenues from operations and incurred a net loss of \$(4,372,437). As of June 30, 2020, the Company had an accumulated deficit of \$64,186,347.

In the year ended December 31, 2019, the Company defaulted on certain debts and failed to secure proper licensing in Canada to produce and sell cannabis and cannabis related products. These events substantially restricted access to continue operations and, as a result, the Company filed for protection under the Companies' Creditors Arrangement Act (the “CCAA”). Effective May 26, 2020 the Company was discharged from this process, having settled with all claimants.

The Company through its subsidiaries owns the assets related to cannabis cultivation, production, distribution, research and product development business outside of Canada in Oregon and Nevada. On March 14, 2019 the Company, together with its subsidiaries Agrima Botanicals Corp., Bloom Holdings Ltd., Bloom Meadows Corp., Pinecone Products Ltd., and Agrima Scientific Corp. (collectively, the “Vendors”) sold substantially all of the assets comprising the Canadian business of the Vendors for cash and the assumption of debts related to the sold assets including a greenhouse located in Pitt Meadows, British Columbia.

The Company has historically financed its working capital requirements primarily through equity and debt financing. The Company's ability to continue as a going concern is dependent upon its ability to commence profitable operations in Oregon and generate funds therefrom or raise additional financing in order to meet current and future obligations. While the Company has been successful in raising financing in the past, there is no assurance that it will be able to obtain additional financing or that such financing will be available on reasonable terms once it leaves CCAA protection. These conditions combined with the accumulated losses to date indicate the existence of a material uncertainty that may cast doubt on the Company's ability to continue as a going concern.

These condensed consolidated interim 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 – Summary of Significant Accounting Policies

#### a) Statement of compliance and basis of presentation

These condensed consolidated interim financial statements for the three and six months ended June 30, 2020 have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”). The condensed consolidated interim 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, 2019, which have been prepared in accordance with IFRS, as issued by the IASB.

**LUFF ENTERPRISES LTD. (formerly Ascent Industries Corp.)****Notes to the Condensed Consolidated Interim Financial Statements**

Three and Six Months Ended June 30, 2020 and Year Ended December 31, 2019

(Unaudited – Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

**Note 2 – Summary of Significant Accounting Policies, continued****Statement of compliance and basis of presentation, continued**

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 20, 2020.

These condensed consolidated interim 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, 2019.

**b) Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Agrima Botanicals Corp., Bloom Holdings Ltd., Bloom Meadows Corp., Pinecone Products Ltd., Agrima Scientific Corp., Azeha Holdings Ltd., Agrima Botanicals ApS (Denmark), West Fork Holdings Inc., West Fork Holdings NV Inc., Sweet Cannabis Inc., Luff Enterprises LLC., Sweet Cannabis NV Inc., Luff Enterprises NV Inc., AIC Health Winnipeg Corp., AIC Health Winnipeg Wellness Corp., and AIC Health Services Corp. All significant inter-company balances and transactions have been eliminated on consolidation.

**Note 3 – Sale of Canadian Operating Assets**

Effective April 8, 2019 and pursuant to an order issued by the Supreme Court of British Columbia on March 25, 2019, the Company sold the Pitt Meadows facility, the Maple Ridge facility and a lease contract to BZAM Management Inc. and subsequently commenced the winding up of its Canadian operations.

The consideration was allocated as follows:

<u>Sale of Assets</u>	
Gross Consideration	\$ 19,152,056
Less Commission	(978,840)
Inventory	(541,877)
Prepays	(103,221)
Deposits and Construction in Progress	(14,432,232)
Property, Plant and Equipment	(10,674,398)
Assumption of Long-term Debt	8,518,259
Assumption of Derivative Debt	1,976,063
	<b>\$ 2,915,810</b>

**Note 4 – Loss on Write-down of Assets**

The Company recorded a loss on the write-down of its assets in Canada and Denmark which were deemed to have no value, in the total amount of \$5,952,843. See Note 10: Intangible Assets.

**Note 5 – CCAA Settlement**

On March 1, 2019, by order of the Supreme Court of British Columbia, Ascent Industries Corp. along with the wholly owned subsidiaries, Agrima Botanicals Corp., 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.

**Note 5 – CCAA Settlement, continued**

The allowable claims were segregated into two classes:

- (i) the unaffected claims: claims below \$11,100 and paid in full;
- (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, Company issued the affected claimants the 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 with CCAA 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 Ascent that were to be issued pursuant to the terms of the Plan, have been completed. The stay of proceedings expired on March 6, 2020 and the Company’s CCAA proceedings concluded upon expiry of the stay.

**Note 6 – Trade and Other Receivables**

	<b>June 30 2020</b>	December 31 2019
Trade receivables	\$ -	\$ -
GST recoverable	<b>795,789</b>	746,877
	<b>\$ 795,789</b>	\$ 746,877

During the three and six months ended June 30, 2020 approximately \$285,000 of GST recoverable was written off as bad debt as management deemed it uncollectible. In the year ended December 31, 2019 no bad debt expense was recognized.

**Note 7 – Prepaid Expenses**

	<b>June 30 2020</b>	December 31 2019
Prepaid vendors	\$ 44,217	\$ 14,295
Prepaid rent	<b>11,746</b>	57,735
Deposits	<b>60,579</b>	-
	<b>\$ 116,542</b>	\$ 72,030

**LUFF ENTERPRISES LTD. (formerly Ascent Industries Corp.)****Notes to the Condensed Consolidated Interim Financial Statements**

Three and Six Months Ended June 30, 2020 and Year Ended December 31, 2019

(Unaudited – Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

**Note 8 – Investments**

During the year ended May 31, 2018, the Company invested in Enhanced Pet Sciences Corp., a privately held, startup company that is developing pet food products incorporating cannabinoid extracts. The Company does not have significant influence or control over the investee. The investee is privately held and there is no quoted market price for its common shares.

Through its amalgamation with Paget Minerals Corp in August 2018, the Company acquired a 1.5% royalty in the Blackwater Gold-Silver Project (the Project). The Company has not assigned a value to this royalty as it is not quantifiable at this time, and there is uncertainty as to the collectability of the royalty as the Project is still in its discovery phase.

During the period ended December 31, 2018, the Company acquired an investment in Sebastiani Ventures Corp, a publicly traded company previously held by Paget Minerals Corp. The Company does not have significant influence or control over the investee. Also during the period ended December 31, 2018, the Company acquired the right to future payments, either in cash or shares, from Evrim Resources (Evrin), the purchases of the Ball Creek Project, a mining project in British Columbia, previously held by Paget Minerals Corp. The agreement also called for future payments, either in cash or shares, of third party and/or joint venture projects. Evrim entered into a joint venture project with Golden Ridge Resources, Ltd., in 2019, and thus the Company has received 380,000 shares in Golden Ridge Resources Ltd., pursuant to the agreement. The shares are valued at the quoted market price in the condensed consolidated interim statement of financial position.

	<b>June 30 2020</b>	December 31 2019
Enhanced Pet Sciences Corp.	\$ <b>360,000</b>	\$ 360,000
Sebastiani Ventures Corp.	<b>16,502</b>	16,502
Golden Ridge Resources Ltd.	<b>16,000</b>	-
	<b>\$ 392,502</b>	\$ 376,502

**Note 9 – Property, Plant and Equipment**

<u>Cost</u>	December 31 2019	Additions	Adjustments/ Transfers	Disposals	June 30 2020
Land	\$ 667,177	\$ -	\$ (1,018)	\$ -	\$ <b>666,159</b>
Buildings	4,308,175	-	(6,573)	-	<b>4,301,602</b>
Computer equipment	71,211	3,157	(230)	-	<b>74,138</b>
Software	7,157	-	(11)	-	<b>7,146</b>
Mobile equipment	33,000	-	(50)	-	<b>32,950</b>
Furniture and fixtures	52,733	-	(80)	-	<b>52,653</b>
Security equipment	185,642	-	(284)	-	<b>185,358</b>
Tools and equipment	1,114,513	-	(1,114,513)	-	-
Lab equipment	223,818	11,703	1,112,471	-	<b>1,347,992</b>
Leasehold improvements	2,359,348	-	(3,600)	-	<b>2,355,748</b>
Right of use assets	244,589	-	(244,589)	-	-
	<u>\$ 9,267,363</u>	<u>\$ 14,860</u>	<u>\$ (258,477)</u>	<u>\$ -</u>	<u>\$ <b>9,023,746</b></u>

**LUFF ENTERPRISES LTD. (formerly Ascent Industries Corp.)****Notes to the Condensed Consolidated Interim Financial Statements**

Three and Six Months Ended June 30, 2020 and Year Ended December 31, 2019

(Unaudited – Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

**Note 9 – Property, Plant and Equipment, continued**

<u>Accumulated Amortization</u>	<u>December 31 2019</u>	<u>Additions</u>	<u>Adjustments/ Transfers</u>	<u>Disposals</u>	<u>June 30 2020</u>
Buildings	\$ (224,384)	\$ (53,086)	\$ -	\$ -	\$ (277,470)
Computer equipment	(44,850)	(11,966)	-	-	(56,816)
Software	(3,877)	(1,180)	-	-	(5,057)
Mobile equipment	(17,875)	(4,064)	-	-	(21,939)
Furniture and fixtures	(20,191)	(2,862)	-	-	(23,053)
Security equipment	(111,119)	(29,064)	-	-	(140,183)
Tools and equipment	(570,426)	-	570,426	-	-
Lab equipment	(118,149)	(170,279)	-	-	(288,428)
Leasehold improvements	(543,044)	(116,130)	(570,426)	-	(1,229,600)
Right of use assets	(192,569)	-	192,569	-	-
	<u>\$ (1,846,484)</u>	<u>\$ (388,631)</u>	<u>\$ 192,569</u>	<u>\$ -</u>	<u>\$ (2,042,546)</u>

<u>Cost</u>	<u>December 31 2018</u>	<u>Additions</u>	<u>Adjustments/ Transfers</u>	<u>Disposals</u>	<u>December 31 2019</u>
Construction in progress	\$ 6,361,671	\$ -	\$ -	\$ (6,361,671)	\$ -
Land	1,321,159	-	-	(653,982)	667,177
Buildings	9,416,042	-	-	(5,107,867)	4,308,175
Computer equipment	504,840	-	-	(433,629)	71,211
Wireless network	87,003	-	-	(87,003)	-
Software	42,317	-	-	(9,317)	33,000
Mobile equipment	77,815	-	-	(42,019)	35,796
Furniture and fixtures	345,705	-	-	(292,972)	52,733
Security equipment	609,038	-	-	(452,035)	157,003
Tools and equipment	2,122,614	-	-	(790,806)	1,331,808
Lab equipment	2,896,968	-	-	(2,890,445)	6,523
New groundwork	133,182	-	-	(133,182)	-
Leasehold improvements	3,835,024	-	-	(1,475,676)	2,359,348
Right of use assets	-	244,589	-	-	244,589
	<u>\$ 27,753,378</u>	<u>\$ 244,589</u>	<u>\$ -</u>	<u>\$ (18,730,604)</u>	<u>\$ 9,267,363</u>

**LUFF ENTERPRISES LTD. (formerly Ascent Industries Corp.)****Notes to the Condensed Consolidated Interim Financial Statements**

Three and Six Months Ended June 30, 2020 and Year Ended December 31, 2019

(Unaudited – Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

**Note 9 – Property, Plant and Equipment, continued**

<u>Accumulated Amortization</u>	<u>December 31 2018</u>	<u>Additions</u>	<u>Adjustments/ Transfers</u>	<u>Disposals</u>	<u>December 31 2019</u>
Buildings	\$ (922,308)	\$ (137,910)	\$ -	\$ 835,834	\$ (224,384)
Computer equipment	(192,991)	(30,394)	-	178,535	(44,850)
Wireless network	(87,003)	-	-	87,003	-
Software	(23,440)	(11,444)	-	17,009	(17,875)
Mobile equipment	(39,364)	(11,459)	-	39,290	(11,533)
Furniture and fixtures	(177,339)	(13,505)	-	170,653	(20,191)
Security equipment	(190,316)	(67,012)	-	153,865	(103,463)
Tools and equipment	(489,541)	(233,760)	-	38,124	(685,177)
Lab equipment	(1,415,486)	(2,088)	-	1,414,176	(3,398)
New groundwork	(68,225)	-	-	68,225	-
Leasehold improvements	(398,687)	(302,103)	-	157,746	(543,044)
Right of use assets	-	(192,569)	-	-	(192,569)
	<u>\$ (4,004,700)</u>	<u>\$ (1,002,244)</u>	<u>\$ -</u>	<u>\$ 3,160,460</u>	<u>\$ (1,846,484)</u>

<u>Net Book Value</u>	<u>June 30 2020</u>	<u>December 31 2019</u>
Land	\$ 666,159	\$ 667,177
Buildings	4,024,132	4,083,791
Computer equipment	17,322	26,361
Software	2,089	15,126
Mobile equipment	11,011	24,263
Furniture and fixtures	29,600	32,542
Security equipment	45,175	53,540
Tools and equipment	-	646,631
Lab equipment	1,059,564	3,125
Leasehold improvements	1,126,148	1,816,304
Right of use assets	-	52,020
	<u>\$ 6,981,200</u>	<u>\$ 7,420,880</u>

**Note 10 – Intangible Assets**

	<u>June 30 2020</u>	<u>December 31 2019</u>
Licenses	\$ 1,121,268	\$ 1,105,799
Accumulated amortization	(66,309)	(49,712)
	<u>\$ 1,054,959</u>	<u>\$ 1,056,087</u>

Amortization expense of \$7,036 was recorded in the six months ended June 30, 2020 and \$3,518 for the three months ended June 30, 2020. Amortization expense was \$14,702 in the year ended December 31, 2019.

**LUFF ENTERPRISES LTD. (formerly Ascent Industries Corp.)****Notes to the Condensed Consolidated Interim Financial Statements**

Three and Six Months Ended June 30, 2020 and Year Ended December 31, 2019

(Unaudited – Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

**Note 11 – Loan Receivable**

On January 28, 2020 the Company entered into a secured loan agreement with Enhanced Pet Sciences Corp for US\$500,000 (CAD\$727,925). The loan bears interest at 8% per annum and is due on December 31, 2020. The principals of the borrower have provided guarantees and have provided collateral security.

**Note 12 – Obligations Under Right-of-Use Lease**

	<b>June 30 2020</b>	December 31 2019
Lease liabilities bearing interest at 5.70% per annum, due in 2020 and 2021	\$ -	\$ 49,479
Amounts payable within one year	-	-
	<b>\$ -</b>	<b>\$ 49,479</b>

The lease obligation and related asset was written off in the three months ended March 31, 2020 as it was immaterial.

**Note 13 – Short Term Debt Payable**

A wholly owned subsidiary of the Company had a mortgage on its property in Maple Ridge, BC. The initial mortgage amount was for \$1,800,000 for a two-year period beginning January 1, 2016 bearing interest at 8.5% per annum compounded monthly. The mortgage was renewed for a one-year term on January 1, 2018 for the principal outstanding of \$1,754,546 with the same interest rate of 8.5% per annum compounded monthly, requiring monthly interest payments of \$14,494. The short-term debt payable at December 31, 2018 was \$1,731,003. The mortgage was discharged in the course of the asset sale in 2019 (Note 3).

**Note 14 – Convertible Debenture and Long-Term Liabilities**

Effective May 29, 2017 and as amended July 26, 2018, a wholly owned subsidiary of the Company had an 8.0% interest only mortgage on its Las Vegas, NV property. The aggregate amount of the mortgage is \$4,000,000 and was due in 2019. The mortgage was discharged during the course of the asset sale in 2019 (Note 3).

On May 28, 2020, the Company issued a three year unsecured convertible debenture having a principal amount of \$438,000 (the “Convertible Debenture”) to a company controlled by a shareholder of the Company for the reimbursement of costs incurred by the shareholder in connection with the CCAA proceedings deemed of benefit and in the interest of the Company. The Convertible Debenture is convertible into 17,520,000 Common shares of the Company at the election of the shareholder, at any time and by 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.

**LUFF ENTERPRISES LTD. (formerly Ascent Industries Corp.)****Notes to the Condensed Consolidated Interim Financial Statements**

Three and Six Months Ended June 30, 2020 and Year Ended December 31, 2019

(Unaudited – Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

**Note 14 – Convertible Debenture and Long-Term Liabilities, continued**

The Convertible Debenture is presented on the condensed interim consolidated statement of financial position as follows:

	<b>June 30</b>	December 31
	<b>2020</b>	2019
Principal balance	\$ <b>423,577</b>	\$ -
Debt discount balance	\$ <b>22,575</b>	\$ -

The Convertible Debenture has been discounted to its net present value using a coupon rate of 6% and a yield rate of 8%. The debt discount is amortized over the term of the note using the effective interest rate. Amortization of \$8,152 is included in the condensed consolidated interim statement of operations for the six months ended June 30, 2020 (none at December 31, 2019). The debt discount balance of \$22,575 is included in equity on the condensed interim consolidated statement of financial position.

**Note 15 – Share Capital**

	<b>June 30</b>	December 31
	<b>2020</b>	2019
Issued:		
362,923,829 Common Shares	\$ <b>71,605,330</b>	\$ 70,513,445

At June 30, 2020, there were 362,923,829 issued and fully paid common shares (December 31, 2019 320,151,457).

On March 3, 2020 the Company issued 35,572,372 common shares at a price of \$0.025 per share under the Plan of Compromise, Arrangement and Reorganization (Note 5). On May 15, 2020, the Company issued 7,200,000 common shares at a price of \$.025 per share to settle professional services debts.

**Note 16 – Share Purchase Warrants**

	<b>Amount</b>	Value per Share
Balance, May 31, 2018	<b>12,500,000</b>	\$ 0.250
Expired	<b>(12,000,000)</b>	0.250
Issued	<b>2,885,130</b>	0.400
Issued	<b>33,493,741</b>	0.500
Issued	<b>56,581,500</b>	0.600
Exercised	<b>(51,796)</b>	0.400
Exercised	<b>(2,833,334)</b>	5.000
Exercised	<b>(1,796,499)</b>	0.600
Balance, December 31, 2018	<b>88,778,742</b>	0.250
Expired	<b>(350,000)</b>	0.600
Balance, June 30, 2020 and December 31, 2019	<b>88,428,742</b>	\$ 0.050

During the year ended December 31, 2019, 350,000 warrants at a deemed exercise price of \$0.60 expired. On June 11, 2020, the Company issued a Supplemental Indenture whereby all outstanding warrants were repriced to a reduced exercise price of \$0.05 per warrant and an extended expiration date of June 24, 2021.

**Note 16 – Share Purchase Warrants, continued**

The fair value of the warrants at the date of grant was estimated to be \$161,373 based on the following weight average assumptions: stock price volatility – 85%, risk free rate - .25%, dividend yield – 0.00% and expected life of 12 months.

The following table summarizes the warrants that remain outstanding as at June 30, 2020:

Exercise Price	Number of Warrants	Expiry Date
\$0.05	88,428,742	June 24, 2021

Not all common shares issuable on exercise of these warrants have yet been issued, and accordingly, these have been reflected as common shares to be issued on the statement of changes of shareholders' equity.

**Note 17 – Share-Based Compensation**

During the year ended May 31, 2018, the shareholders of the Company approved a Stock Option Plan to attract and retain directors, employees, officers and consultants for contributions towards the long-term goals of the Company. The directors approved the continuance of this plan in June 2020 by reserving 10% of the issued and outstanding shares for stock options.

The Company recorded \$nil for the period ended December 31, 2019 (\$734,161 in the seven months ended December 31, 2018) in share-based compensation expense related to options.

In the year ended December 31, 2019, all stock options expired or were cancelled when staff was terminated.

**Note 18 – Supplemental Cash Flow Information**

During the year ended December 31, 2019, obligation to issue shares in the First Circle Medical Pharmacy and Clinic acquisition was reversed in the amount of \$250,000; exercise of warrants related to same acquisition was reversed in the amount of \$298,597; and income taxes were paid in the amount of \$2,154.

On March 3, 2020 the Company issued 35,572,372 common shares having an inferred value of \$889,309 in relation to the final settlement of Affected Creditor claims under CCAA proceedings.

On May 15, 2020, the Company issued 7,200,000 common shares at a price of \$.025 per share to settle professional services debts.

On May 28, 2020, the Company issued a three year unsecured convertible debenture having a principal amount of \$438,000 (the "Convertible Debenture") to a company controlled by a shareholder for the reimbursement of costs incurred the shareholder in connection with the CCAA proceedings deemed of benefit and in the interest of the Company. (See Note 14).

**LUFF ENTERPRISES LTD. (formerly Ascent Industries Corp.)****Notes to the Condensed Consolidated Interim Financial Statements**

Three and Six Months Ended June 30, 2020 and Year Ended December 31, 2019

(Unaudited – Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

**Note 19 – Segmented Information**

For the six months ended June 30, 2020	Cannabis	Other	Total
Revenue	\$ 5,116	\$ -	\$ 5,116
Gross profit (loss)	(1,549)	-	(1,549)
Income (loss) from operations	(3,063,877)	-	(3,063,877)
Net income (loss)	(4,372,437)	-	(4,372,437)
For the year ended December 31, 2019			
Revenue	\$ 744,040	\$ -	\$ 744,040
Gross profit (loss)	(1,004,928)	-	(1,004,928)
Income (loss) from operations	(10,974,818)	-	(10,974,818)
Net income (loss)	(10,974,818)	(11,421,566)	(22,396,384)
As at June 30, 2020			
Total assets	\$ 11,164,637	\$ -	\$ 11,164,637
Total liabilities	552,520	-	552,520
As at December 31, 2019			
Total assets	\$ 8,681,590	\$ 4,983,807	\$ 13,665,397
Total liabilities	30,611	432,756	463,367

The Company generates revenue in two geographical locations: Canada and the USA. All revenues during the three and six months ended June 30, 2020 and the year ended December 31, 2019 were generated in Canada and the USA and all material assets and liabilities were located in Canada and the USA.

For the six months ended June 30, 2020	Canada	USA	Total
Revenue	\$ -	\$ 5,116	\$ 5,116
Gross profit (loss)	-	(1,549)	(1,549)
Income (loss) from operations	(1,988,184)	(1,075,693)	(3,063,877)
Net income (loss)	(3,256,103)	(1,116,334)	(4,372,437)
For the year ended December 31, 2019			
Revenue	\$ -	\$ 744,040	\$ 744,040
Gross profit (loss)	-	(1,004,928)	(1,004,928)
Income (loss) from operations	(6,894,790)	(4,080,028)	(10,974,818)
Net income (loss)	(17,628,880)	(4,767,504)	(22,396,384)
As at June 30, 2020			
Total assets	\$ 2,910,065	\$ 8,254,572	\$ 11,164,637
Total liabilities	532,923	19,597	552,520
As at December 31, 2019			
Total assets	\$ 2,910,192	\$ 10,755,205	\$ 13,665,397
Total liabilities	383,272	80,095	463,367

### Note 20 – 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:

	<b>6 months ended June 30 2020</b>	<b>Year ended December 31 2019</b>
Key Employees ( <i>management</i> )		
Salaries and benefits	\$ 67,045	\$ 200,000
Management fees to the CFO	41,666	200,046

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### Note 21 – 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 such that it can continue to provide returns to shareholders and benefits for other stakeholders.

The capital structure of the Company consists of items included in shareholders' equity and debt, net of cash and cash equivalents. 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. There were no changes in the Company's approach to capital management during the periods ended June 30, 2020 or December 31, 2019.

### Note 22 – 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, trade and other payables, short term debt payable, derivative liability, contingent consideration, loans receivable, 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.

**Note 22 – Financial Instruments, continued**

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

	Carrying Amount	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
June 30, 2020				
Investments	\$ 392,502	\$ 32,502	\$ -	\$ 360,000
Loan receivable	727,925	-	727,925	-
December 31, 2019				
Investments	\$ 376,502	\$ 16,502	\$ -	\$ 360,000

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 June 30, 2020 and December 31, 2019, the Company measured its investment in Sebastiani Ventures Corp and Golden Ridge Resources, Ltd. at Level 1 fair value.

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 June 30, 2020, the Company measured its loan to Enhanced Pet Sciences Corp. at Level 2 fair value as there is no active market for this loan.

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 is deemed to be best represented by the initial acquisition price of the investment.

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.

**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 Canadian financial institutions. The Company does not invest in asset-backed deposits or investments and does not expect any credit losses. The Company periodically assesses the quality of its investments and is satisfied with the credit rating of the financial institutions and the investment grade of its guaranteed investment certificates. 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.

As at June 30, 2020 and December 31, 2019 all of the Company's trade receivables were current.

**Note 22 – Financial Instruments, continued**

**Interest Rate Risk**

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the 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 June 30, 2020 the contractual obligations related to financial liabilities were as follows:

	Less than 1 year	1-5 Years	Total
Trade and other payables	\$ 128,943	\$ -	\$ 128,943
Loan payable and convertible debenture	-	446,152	446,152

**Note 23 – Subsequent Events**

The outbreak of the Coronavirus Disease 2019, or COVID-19, has spread across the globe and is impacting worldwide economic activity. This global pandemic poses the risk that the Company or its clients, employees, contractors, suppliers, and other partners may be unable to conduct regular business activities for an indefinite period of time. While it is not possible at this time to estimate the impact that COVID-19 could have on the Company's business, the continued spread of COVID-19 and the measures taken by the federal, provincial and municipal governments to contain its impact could adversely impact the Company's business, financial condition or results of operations. The extent to which the COVID-19 outbreak impacts the Company's results will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the spread of the virus and government actions.