

Interim MD&A – Quarterly Highlights

Luff Enterprises Ltd.

(Formerly Ascent Industries Corp.)

Third Quarter ended September 30, 2020

(Stated in Canadian Dollars)

Dated November 17, 2020

Luff Enterprises Ltd.

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For the Third Quarter ended September 30, 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 September 30, 2020 (the “**2020 Third 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 November 17, 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 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 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.

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Consolidated analysis of financial condition, financial performance and cash flows

The following highlights the Company's overall performance for three and nine months ended September 30, 2020 and 2019 and includes financial information relating to the Company's establishment in the United States and Canadian Operations, which no longer include cannabis cultivation, processing, and production. The Company is now focused on selling industrial hemp consumer packaged goods through its ecommerce platform:

	Q3 2020(\$)	Q3 2019(\$)	Change (%)	9 months ended September 30, 2020 (\$)	9 months ended September 30, 2019 (\$)	Change (%)
Sales	-	62,296	(100%)	5,019	679,852	(13,445%)
Gross margin	(4,927)	151,813	(3,181%)	(6,573)	(399,212)	(5,973%)
Operating expenses	(455,991)	(2,057,313)	(179%)	(3,618,319)	(7,548,751)	(98.6%)
Other (expense) / income	107,741	(529,822)	212%	(1,300,717)	(561,574)	49.8%
Net loss	(353,806)	(2,436,446)	(800%)	(4,928,735)	(8,523,056)	(72.9%)
Net loss per share – basic and diluted	(0.00)	(0.01)		(0.01)	(0.03)	
Weighted average Common Shares outstanding:						
Basic and Diluted	390,083,032	320,151,457	17.9%	390,083,032	320,151,457	17.9%

Consolidated Results Commentary

	Q3	9 Months
Earnings Summary	<p>▲ EPS: Has remained relatively flat</p> <ul style="list-style-type: none"> By March 31, 2019, the Company had entered CCAA proceedings, effectively shutting down operations in all locations, leading to a halt in sales. Through 2019 the Company incurred significant expenses related to the CCAA process. The Company was discharged from CCAA in Q2 2020. Since operating expenses have exponentially declined as the Company is focused on lean operational principles, alignment of executive compensation with the market, and reducing the use of professional services. 	<ul style="list-style-type: none"> 9 month operating results are affected by the same events as the quarterly results. The Company issued shares for a significant amount of legal services and to settle debts through the CCAA process approximating \$1,000,000, contributing to high operating expenses in 2020, as well as a payment of \$325,000 in severance to a former CEO. The CCAA process ended in Q2 2020, reducing operating expenses significantly.

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Balance Sheet Analysis, Liquidity, and Capital Resources

	Q2 2020	Change (%)	9 months ended September 30, 2020 (\$)	9 months ended September 30, 2019 (\$)	Change (%)
Cash and cash equivalents at end of period	825,015	(28%)	645,846	14,901,928	(2,207%)
Total assets at end of period	11,164,637	(5%)	10,585,772	31,300,059	(196%)
Current liabilities	(128,942)	24%	(170,453)	(5,413,392)	(3,076%)
Long-term liabilities	(423,577)	0.4%	(425,458)	-	-
Working Capital	2,271,611	(24%)	1,838,324	11,381,815	(519%)

Balance Sheet, Liquidity, and Capital Resources Commentary

	Q3	9 months
Financial position Summary	<p>▼ Working Capital: (\$433,287) or (24%)</p> <ul style="list-style-type: none"> During Q2 2020 the Company issued a convertible debenture to a shareholder for payment of legal fees on behalf of the Company, resulting in a long-term liability. In Q3 cash was used to build up initial inventory to prepare for ecommerce sales to commence in Q4 2020. 	<p>▼ Working Capital: (\$9,543,491) or (519%)</p> <ul style="list-style-type: none"> At September 30, 2020, compared to September 30, 2019, the company has settled all CCAA debts and been discharged from the proceedings. Significant cash was used to settle the CCAA proceedings at the end of 2019, reducing total cash, assets and current liabilities between the two periods. Working capital was also reduced due to the use of cash to settle the CCAA debts.

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Summary Cash Flows

	Q2 2020		9 months ended September 30, 2020 (\$)	9 months ended September 30, 2019 (\$)	Change
Cash and cash equivalents at end of period	825,015	(28%)	645,846	14,901,928	(2207%)
Cash used in operating activities	(2,307,491)	4%	(2,399,084)	11,527,729	(185%)
Cash used in investing activities	(739,586)	4%	(772,301)	3,128,427	505%
Cash from financing activities	(368,988)	(2,771%)	13,815	-	(132,782%)

Cash Flows Commentary

	Q3	9 Months
Cash Flow Summary	▼ Cash Used in the period: \$(179,769) compared to \$(692,601) in Q2	▼ Cash Used in the period: \$(16,910,076)
	<ul style="list-style-type: none">• Cash used in operations decreased compared to the amount used in Q2 due to reduced operations.• The Company completed a Private Placement in Q3 which generated approximately \$435,000 in cash, offsetting cash used in operations.	<ul style="list-style-type: none">• Between Q3 2019 and Q3 2020 the Company settled all CCAA debts, using a significant amount of cash to do so.• The Company issued a short-term loan to a related party in Q1 2020.• Q3 2019 also reflects the generation of cash from the sale of the Canadian assets in Q2 2019.

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 Botanicals, 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.

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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:

- (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. Further it settled outstanding indebtedness of \$180,000 through the issuance of 7,200,000 Common shares of the Company at a deemed price of \$0.025 per Common share.

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
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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.

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The Company held its annual general meeting of shareholders on Wednesday, June 24, 2020, at 10:00 am (Pacific Daylight Time) (the “AGM”).

The results of the AGM are that shareholders voted in favour of setting the number of directors at three and the following directors were elected: Philip Campbell, Jeremy South, and Drew Malcolm (the “Directors”). In addition to the election of the Directors, the shareholders voted in favour of approving the Company’s 2017 Incentive Stock Option Plan.

In addition, the Directors re-appointed Philip Campbell as Chief Executive Officer, and Jeremy South as non-executive Chairman of the Board. Rod Kirkham was appointed Corporate Secretary of the Company. The Company also announced two key management appointments. Effective June 24, 2020, Elizabeth Coles was appointed Chief Financial Officer and John Sweeney was appointed Chief Operating Officer.

Liquidity and capital resources

As a final step in addressing costs associated with the CCAA process, the Company issued a three year unsecured convertible debenture having a principal amount of CDN\$438,000 (the “Convertible Debenture”) to a company controlled by Drew Malcolm for the reimbursement of costs incurred by Mr. Malcolm 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 Mr. Malcolm 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. If the Convertible Debenture was to be converted in full, Mr. Malcolm would directly and indirectly own common shares representing 10.94% of the Company’s outstanding Common shares, calculated on a fully diluted basis.

The term of voting trust agreements entered into by Mr. Malcolm and certain shareholders of the Company historically referred to as members of the “Drew Malcolm Voting Trust” has not been renewed and all such voting trust agreements terminate in accordance with their terms. In addition, the founders of the Company, which include Mr. Campbell, have terminated their agreements to sell all of their holdings of Common shares of the Company, previously announced in the first quarter of 2019, owing to the significant period for which the Company’s Common shares did not trade on the CSE (defined below). Management of the Company is not aware of any one shareholder or group of shareholders owning or controlling more than 10% of the currently issued and outstanding common shares of the Company.

Through its amalgamation with Paget Minerals Corp in August 2018, the Company acquired a 1.5% royalty in the Buck claim within the Capoose block of 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 was not part of the feasibility study completed recently by the Project owner.

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, through its amalgamation with Paget Minerals, the Company acquired the right to future payments, either in cash or shares, from Evrim Resources (Evrin), of third party and/or joint venture projects related to the Ball Creek Project. Evrim entered a joint venture project with Golden Ridge Resources, Ltd., in 2019, and thus the Company 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.

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On September 22, 2020, the Company completed a non-brokered Private Placement issuing 27,159,103 common shares at a price of \$0.016 per share for gross proceeds of \$434,547.24. All securities issued under the Private Placement will be subject to a four month hold period expiring January 22, 2021, in accordance with applicable securities laws. Finder's fees of \$1,340 were paid in connection with the offering.

At the October 29, 2020 board meeting the Directors of the Company voted to adopt the Amended and Restated Stock Option and Restricted Share Unit Plan (the Amended Plan). The Amended Plan now includes Restricted Share Units (RSUs) as a form of employee compensation. The Directors also approved 15,000,000 RSUs to be granted to executive management and directors, vesting over a two-year period. RSUs vest at current market value per share. In addition, 4,000,000 stock options were granted to employees vesting over a four-year period at an exercise price of \$0.02 per share. Share based compensation expense related to the options is approximately \$20,000 and will be recorded in Q4 2020.

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 industrial hemp derived CBD products in the United States, using its production facility in Portland, Oregon.

Related party transactions

In the three-month period July 1 – September 30, 2020 payments to senior management in the form of salaried compensation was \$91,615. Payments to directors totaled \$9,000.

Commitments

See above commitment related to the convertible debenture issued to Mr. Drew Malcolm.

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

Registered Office:	Suite 800 – 543 Granville Street, Vancouver, BC V6C 1X8
Directors:	Philip Campbell Drew Malcolm Jeremy South
Senior Officers:	Philip Campbell, Chief Executive Officer Elizabeth Coles, Chief Financial Officer John Sweeney, Chief Operating Officer
Auditor:	Kingston Ross Pasnak LLP Suite 1500, 9888 Jasper Avenue NW Edmonton, Alberta, T5J 5C6
Transfer Agent:	National Securities Administrators Ltd. 702 – 777 Hornby Street Vancouver, BC, V6Z 1S4

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