

# **LUFF ENTERPRISES LTD.**

## **Condensed Interim Consolidated Financial Statements**

**Three Months Ended March 31, 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)

	<b>March 31 2022</b>	<b>December 31 2021</b>
<i>(expressed in Canadian dollars)</i>		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,183,997	\$ 3,880,602
Trade and other receivables	363,100	359,614
Prepaid expenses	33,665	35,614
Investments	775,374	754,422
Inventory	332,862	344,952
Loan receivable	670,143	686,221
Total current assets	<u>5,359,141</u>	<u>6,061,425</u>
Long-term assets		
Property held for sale	1,025,595	1,050,201
Intangible assets	33,755	34,791
Right of use asset	<u>75,673</u>	<u>105,072</u>
<b>Total assets</b>	<b><u>\$ 6,494,164</u></b>	<b><u>\$ 7,251,489</u></b>
<b>Liabilities and shareholders' equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 91,084	\$ 229,671
Current portion of right of use lease (Note 3)	<u>80,372</u>	<u>111,062</u>
Total current liabilities	171,456	340,733
Long-term liabilities		
Loans payable (Note 4)	<u>429,221</u>	<u>427,339</u>
Total liabilities	<u>600,677</u>	<u>768,072</u>
Shareholders' equity		
Share capital (Note 5)	72,709,115	72,709,115
Contributed surplus	3,249,967	3,244,154
Accumulated other comprehensive loss	(860,340)	(822,143)
Deficit	<u>(69,205,255)</u>	<u>(68,647,709)</u>
Total shareholders' equity	<u>5,893,487</u>	<u>6,483,417</u>
<b>Total liabilities and shareholders' equity</b>	<b><u>\$ 6,494,164</u></b>	<b><u>\$ 7,251,489</u></b>

## LUFF ENTERPRISES LTD.

### Condensed Interim Consolidated Statements of Operations

(unaudited)  
(expressed in Canadian dollars)

	For the three months ended	
	<b>March 31 2022</b>	<b>March 31 2021</b>
Revenue:		
Sales	\$ 19,832	\$ 70,598
Cost of sales	37,790	47,445
Gross profit	(17,958)	23,153
Expenses:		
General and administration	363,749	418,699
Selling and marketing	59,285	135,478
Share based compensation (Note 7)	5,813	57,000
Depreciation & amortization	46,957	277,005
	475,804	888,182
Loss from operations	(493,762)	(865,029)
Other (income) expenses		
Interest and other	(33,903)	(49,981)
Loss on investments	4,487	-
Loss on foreign exchange	91,319	-
Accretion expense	1,881	1,881
	63,784	(48,100)
Loss before income taxes	(557,546)	(816,929)
Income tax expense	-	14,400
Net loss	(557,546)	(831,329)
Other comprehensive loss		
Currency translation adjustment	(38,197)	(95,993)
Comprehensive loss	\$ (595,743)	\$ (927,322)
Basic and diluted loss per share	\$ (0.00)	\$ (0.00)
Weighted average number of common shares outstanding	431,539,032	395,526,852

## 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	\$				
<b>Balance, December 31, 2020</b>	390,083,032	72,046,643	3,004,907	(353,786)	(66,251,957)	8,445,807
Share based compensation	5,700,000	57,000	-	-	-	57,000
Currency translation adjustment	-	-	-	(95,993)	-	(95,993)
Net loss for the period	-	-	-	-	(831,329)	(831,329)
<b>Balance, March 31, 2021</b>	395,783,032	72,103,643	3,004,907	(449,779)	(67,083,286)	7,575,485
Balance, December 31, 2021	431,539,032	72,709,115	3,244,154	(822,143)	(68,647,709)	6,483,417
Share based compensation	-	-	5,813	-	-	5,813
Currency translation adjustment	-	-	-	(38,197)	-	(38,197)
Net loss for the period	-	-	-	-	(557,546)	(557,546)
<b>Balance, March 31, 2022</b>	<b>431,539,032</b>	<b>72,709,115</b>	<b>3,249,967</b>	<b>(860,340)</b>	<b>(69,205,255)</b>	<b>5,893,487</b>

**LUFF ENTERPRISES LTD.**  
**Condensed Interim Consolidated Statements of Cash Flows**

(unaudited)

(expressed in Canadian dollars)

	For the three months ended	
	<b>March 31 2022</b>	<b>March 31 2021</b>
	<hr/>	<hr/>
Cash provided by (used for):		
<b>Operating activities:</b>		
Net loss for the period	\$ (557,546)	\$ (831,329)
Items not affecting cash:		
Depreciation & amortization	46,957	277,005
Accretion expense	1,881	1,881
Share based compensation	5,813	57,000
Loss on foreign exchange	91,319	(36,896)
Loss on investments	4,487	-
Changes in non-cash working capital balances:		
Trade and other receivables	(32,052)	(41,649)
Prepaid expenses	1,236	(11,855)
Inventory	4,067	(147,754)
Accounts payable and accrued liabilities	(135,972)	(292,098)
Cash used in operating activities	<hr/> (569,810) <hr/>	<hr/> (1,025,695) <hr/>
<b>Investing activities:</b>		
Purchase of property, plant and equipment	-	(17,815)
Advances of loan receivable	-	(47,132)
Cash used in investing activities	<hr/> - <hr/>	<hr/> (64,947) <hr/>
<b>Financing activities:</b>		
Repayment of right of use lease liability	(47,955)	(46,950)
Proceeds on note payable	-	165,257
Cash (used in) provided by financing activities	<hr/> (47,955) <hr/>	<hr/> 118,307 <hr/>
Decrease in cash and cash equivalents	(617,765)	(972,336)
Effect of exchange rate changes on cash	(78,840)	(1,391)
Cash and cash equivalents, beginning of period	3,880,602	1,932,363
<b>Cash and cash equivalents, end of period</b>	<hr/> <b>\$ 3,183,997</b> <hr/>	<hr/> <b>\$ 958,636</b> <hr/>

## LUFF ENTERPRISES LTD.

### Notes to the Condensed Interim Consolidated Financial Statements

Three Months Ended March 31, 2022

(Expressed in Canadian Dollars)

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

Luff Enterprises Ltd. (“Luff” or the “Company”) manufactures and distributes hemp based Cannabidiol (“CBD”) wellness products in the United States through two brands on its innovative e-commerce platforms. The Company focuses on formulations leveraging unique cannabinoids, such as CBG and CBN; and boost them with superfood ingredients. The Company, through its subsidiaries, owns the assets related to hemp production, distribution, and product development in the State of Oregon.

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 three months ended March 31, 2022 the Company incurred a net loss of \$557,546 (\$2,395,752 in the year ended December 31, 2021). However, the Company had a strong cash position of \$3,183,997 and positive working capital of \$5,187,685 as at March 31, 2022. The Company believes it currently has sufficient cash and working capital to fund its operating expenditures and capital investments for the foreseeable future.

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 months ended March 31, 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 IFRS, as issued by the IASB.

The unaudited interim consolidated financial statements were authorized for issue by the Board of Directors on May 19, 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.

**Note 2 – Basis of Preparation, continued**

b) Basis of consolidation

These interim condensed 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., Agrima Botanicals ApS (Denmark), West Fork Holdings Inc., West Fork Holdings NV Inc., Sweet Cannabis Inc., Luff Enterprises LLC., Sweet Cannabis NV Inc., and Luff Enterprises NV Inc. All inter-company balances and transactions have been eliminated on consolidation.

**Note 3 – 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 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 \$17,498 (December 31, 2021 - \$16,320), maturing at dates ranging from June 2022 to December 2022. These lease liabilities correspond with right of use assets with a net book value of \$75,673 at March 31, 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:

	March 31 2022 \$	December 31 2021 \$
Within one year	<b>82,795</b>	115,782
Thereafter	-	-
Total minimum lease payments	<b>82,795</b>	115,782
Less: amount representing interest	<b>(2,423)</b>	(4,720)
Present value of minimum lease payments	<b>80,372</b>	111,062
Less: current portion	<b>(80,372)</b>	(111,062)
	-	-

**Note 4 – Convertible Debenture and Long-Term Liabilities**

The Company has outstanding an unsecured convertible debenture in the principal amount of \$438,000 (the “Convertible Debenture”) owing to a company controlled by a director and shareholder of the Company. The Convertible Debenture 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 Convertible Debenture has been 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.

**Note 5 – Share Capital**

	March 31 2022	December 31 2021
<i>Authorized – Unlimited common shares with no par value</i>	\$	\$
<b>Issued and outstanding:</b> 431,549,032 common shares	<b>72,709,115</b>	72,709,115

There were no common share transactions during the three months ended March 31, 2022.

**Note 6 – Share Purchase Warrants**

	Amount	Weighted Average Exercise Price per Share \$
Balance as at December 31, 2021	39,656,000	0.042
Warrants issued	-	-
<b>Balance as at March 31, 2022</b>	<b>39,656,000</b>	<b>0.042</b>

The following table summarizes the warrants that were outstanding as at March 31, 2022:

Exercise Price	Number of Warrants	Expiry Date
\$0.05	27,656,000	October 26, 2024
\$0.025	12,000,000	December 23, 2022

**Note 7 – 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 three months ended March 31, 2022:

	Amount	Exercise Price per Share \$
Balance, December 31, 2021	2,000,000	0.02
Stock options forfeited	(1,600,000)	0.02
<b>Balance, March 31, 2022</b>	<b>400,000</b>	<b>0.02</b>

**Note 7 – Share-Based Compensation, continued**

The remaining outstanding 400,000 stock options expire on July 28, 2025. Of this amount, 200,000 stock options were vested and exercisable at March 31, 2022.

**Restricted share units**

As at March 31, 2022 and December 31, 2021, 900,000 RSUs were outstanding and scheduled to vest on May 26, 2022. Share based compensation expense of \$5,813 was recognized for the quarter ended March 31, 2022 (2021 - \$27,000) related to RSUs. Subsequent to March 31, 2022, the Board of Directors cancelled all of the outstanding RSUs.

**Note 8 – Segmented Information**

The Company generates revenue in one distinct segment: hemp products, and its activities are conducted in two geographic segments: Canada and the United States. All activities in both segments are related to hemp products and all material assets and liabilities are related to hemp products.

During the three months ended March 31, 2022, all the Company's revenue of \$19,832 (2021 - \$70,598) was generated in the United States. All the Company's property, plant and equipment and intangible assets are also located in the United States.

**Note 9 – 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>March 31 2022 \$</b>	<b>March 31 2021 \$</b>
Salaries and benefits and management fees	<b>76,443</b>	245,076
Directors' fees	<b>24,000</b>	27,000
Stock based compensation	<b>5,813</b>	57,000
<b>Total compensation to key management</b>	<b>106,256</b>	329,076

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 months ended March 31, 2022, the Company incurred interest expense of \$6,568 (three months ended March 31, 2021 - \$6,568) related to a Convertible Debenture owing to a director and shareholder of the Company.

### Note 10 – 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:

	March 31 2022 \$	December 31 2021 \$
Current portion of right of use lease	<b>80,372</b>	111,062
Loans payable	<b>429,221</b>	427,339
Funded debt	<b>509,593</b>	538,401
Shareholders' equity	<b>5,893,487</b>	6,483,417
<b>Total capital</b>	<b>6,403,080</b>	7,021,818

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 11 – 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, loans receivable, right of use leases, trade and other payables, 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 11 – Financial Instruments, continued**

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

	Carrying Amount	Fair Value Measurements		
		Level 1	Level 2	Level 3
	\$	\$	\$	\$
<b>March 31, 2022</b>				
Investments	775,374	9,936	-	765,438
Loan receivable	670,143	-	670,143	
<b>December 31, 2021</b>				
Investments	754,422	14,422	-	740,000
Loan receivable	686,221	-	686,221	

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 March 31, 2022 and December 31, 2021, the Company measured its investment in 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 March 31, 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.

**Note 11 – 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 Canadian 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 March 31, 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	91,084	-	<b>91,084</b>
Loans payable	-	438,000	<b>438,000</b>
Right of use lease	82,795	-	<b>82,795</b>

***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 March 31, 2022, a 5% increase or decrease in the exchange rate would result in a foreign currency gain or loss of \$190,000. As at March 31, 2022, the Company held cash and cash equivalents of USD \$2,438,794.