sugarbud

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL RESULTS

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

The accompanying unaudited condensed consolidated interim financial statements of the Company as at, and for, the three and six months ended June 30, 2021 and 2020, have been prepared in accordance with IFRS and are the responsibility of the Company's management. The interim financial statements and related financial reporting matters have been reviewed and approved by the Audit Committee.

The Company's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements as at, and for, the three and six months ended June 30, 2021 and 2020 in accordance with the standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim financial statements by an entity's auditor.

expressed in Canadian dollars unless otherwise noted

	Note	June 30, 2021	December 31, 2020
Assets			
Current assets			
Cash		$ 235,949	$ 21,274
Accounts receivable	5	319,970	286,945
Prepaid expenses and deposits		176,216	469,271
Inventory	6	6,189,433	3,105,423
Biological assets	7	731,053	923,284
		7,652,621	4,806,197
Non-current assets			
Intangible asset		2,500,228	2,532,868
Non-current deposits		159,756	159,756
Property, plant and equipment	8	10,923,938	10,965,153
Right-of-use asset	9	487,223	567,590
Total Assets		$ 21,723,766	$ 19,031,564
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 2,344,400	$ 3,057,896
Current portion of lease obligations		156,837	156,837
Current portion of commercial mortgage loan	14	619,010	419,055
		3,120,247	3,633,788
Non-current liabilities			
Lease obligations		371,293	448,157
Commercial mortgage loan	14	4,592,922	4,305,347
Convertible debentures	15	20,825	621,202
Total Liabilities		$ 8,105,287	$ 9,008,494
Shareholders' Equity			
Share capital	10	42,190,105	38,013,449
Contributed surplus	11	8,198,538	7,255,736
Deficit		(36,770,164)	(35,246,115)
Total Shareholders' Equity		$ 13,618,479	10,023,070
Total Liabilities and Shareholders' Equity		$ 21,723,766	$ 19,031,564

The accompanying notes are an integral part of the condensed consolidated interim financial statements.
Going Concern (Note 1)
Commitments and Contingencies (Note 19)
Subsequent Events (Note 20)

SIGNED ON BEHALF OF THE BOARD

"Dan Wilson"
Director

"Janice Comeau"
Director

expressed in Canadian dollars unless otherwise noted

		Three Months Ended		Six Months Ended	
	Note	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Gross revenue		$ 317,080	$ -	$ 996,835	$ -
Excise taxes		(64,903)	-	(226,641)	-
Net revenue		252,177	-	770,194	-
Cost of goods sold		194,780	-	590,454	-
Gross profit before fair value adjustments		57,397	-	179,740	-
Change in fair value of biological assets	7	852,808	675	2,405,317	(47,947)
Change in fair value through inventory	6	(197,196)	-	(436,358)	-
Gross profit (loss)		713,009	675	2,148,699	(47,947)
Expenses					
General and administrative	16	$ 1,418,532	$ 811,951	$ 2,530,197	$ 2,221,722
Stock based compensation	12	122,868	121,247	213,969	280,500
Depreciation and amortization	8,9	176,305	182,728	350,586	385,320
Loss from operations		(1,004,696)	(1,115,251)	(946,053)	(2,935,489)
Finance costs	17	4,980	969,775	412,996	1,083,136
Litigation settlement	19	165,000	-	165,000	-
Net (gain) loss on investment		-	(24,511)	-	18,672
Loss on divestiture of retail assets and other		-	-	-	15,929
Loss before income tax		(1,174,676)	(2,060,515)	(1,524,049)	(4,053,226)
Income tax		-	-	-	-
Total loss and comprehensive loss		$ (1,174,676)	$ (2,060,515)	$ (1,524,049)	$ (4,053,226)
Loss per share, basic and diluted	13	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.01)

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

expressed in Canadian dollars unless otherwise noted

	Number of common shares		Share capital	Contributed surplus	Deficit	Total
Balance at December 31, 2019	393,768,532	$	35,621,339	6,211,492	(30,280,172)	11,552,659
Stock-based compensation	-		-	280,500	-	280,500
Convertible debenture conversion	48,000,000		2,400,000	-	-	2,400,000
Convertible debenture reserve	-		-	129,785	-	129,785
Comprehensive loss	-		-	-	(4,053,226)	(4,053,226)
Balance at June 30, 2020	**441,768,532**	$	**38,021,339**	**6,621,777**	**(34,333,398)**	**10,309,718**

	Note	Number of common shares		Share capital	Contributed surplus	Deficit	Total
Balance at December 31, 2020		462,209,841	$	38,013,449	7,255,736	(35,246,115)	10,023,070
Stock-based compensation	12	-		-	213,969	-	213,969
Convertible debenture conversion	10,15	18,935,932		805,897	-	-	805,897
Exercise of warrants	11	605,000		30,250	-	-	30,250
Issuance of common shares	10	76,670,500		3,776,313	-	-	3,776,313
Issuance of warrants	11	-		-	823,917	-	823,917
Share issuance costs	10,11	-		(435,804)	(95,084)	-	(530,888)
Comprehensive loss		-		-	-	(1,524,049)	(1,524,049)
Balance at June 30, 2021		**558,421,273**	$	**42,190,105**	**8,198,538**	**(36,770,164)**	**13,618,479**

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

expressed in Canadian dollars unless otherwise noted

		Three Months Ended		Six Months Ended	
	Note	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Cash used in operating activities:					
Loss and comprehensive loss for the period		$ (1,174,676)	$ (2,206,841)	$ (1,524,049)	$ (4,053,226)
Adjustments for non-cash items:					
Net loss on investment		-	(24,510)	-	18,672
Depreciation and amortization	8,9	176,305	182,727	350,586	385,320
Stock based compensation	12	122,868	121,247	213,969	280,500
Finance costs	17	4,980	969,775	412,996	1,083,136
Change in fair value of biological asset	7	(852,808)	(675)	(2,405,317)	47,947
Change in fair value through inventory	6	197,196	-	436,358	-
Loss on divestiture of retail assets and other		-	835	-	15,929
Change in term deposit		-	(14,000)	-	-
Change in non-cash working capital		(497,261)	(832,552)	(1,218,983)	(758,943)
Cash used in operating activities		(2,023,396)	(1,803,994)	(3,734,440)	(2,980,665)
Cash used in investing activities:					
Additions to property, plant and equipment	8	(252,540)	(122,760)	(310,155)	(177,401)
Net proceeds from divestiture of retail assets		-	-	-	153,399
Cash used in investing activities		(252,540)	(122,760)	(310,155)	(24,002)
Cash provided by financing activities:					
Proceeds from commercial mortgage loan	14	140,968	4,923,753	587,553	4,923,753
Repayment of commercial mortgage loan	14	(105,480)	-	(105,480)	-
Repayment of credit facility	14	-	(2,040,000)	-	(2,040,000)
Net proceeds from convertible debenture	15	-	3,491,898	-	3,491,898
Net payment of convertible debenture reserve		(4,674)	(192,000)	(51,794)	(192,000)
Exercise of warrants	11	250	-	30,250	-
Issuance of units, net of issuance costs	10	-	-	4,069,342	-
Interest paid during the period	17	(69,698)	(936,580)	(193,738)	(1,010,322)
Repayment of lease obligations		(38,926)	(30,829)	(76,863)	(54,822)
Repayment of shareholder loan		-	(100,000)	-	-
Cash provided by (used in) financing activities		(77,560)	5,116,242	4,259,270	5,118,507
Increase (decrease) in cash		(2,353,496)	3,189,488	214,675	2,113,840
Cash, beginning of period		2,589,445	2,093	21,274	1,077,741
Cash, end of period		$ 235,949	$ 3,191,581	$ 235,949	$ 3,191,581

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

1. Nature of Operations

Sugarbud Craft Growers Corp. ("Sugarbud" or "the Company") is a federally licensed, publicly traded cannabis company focused on the cultivation and production of cannabis products. The principal activities of the Company are the production, distribution and sale of cannabis in Canada. Sugarbud and its subsidiaries currently operate solely in Canada. Sugarbud is incorporated in Alberta and listed on the TSX Venture Exchange ("TSXV") under the symbols "SUGR" (common shares), "SUGR.WT" (common share purchase warrants), "SUGR.DB" (convertible debenture units), "SUGR.WS" (convertible debenture warrants), "SUGR.WR" (common share purchase warrants) and also listed on the OTCQB under the symbol "SBUDF". The Company operates primarily in Alberta and its head office is located at Suite #620, 634 6th Avenue SW, Calgary, Alberta T2P 0S4.

The Company became a reporting issuer in April 2004 and was previously an oil and natural gas company. During the year ended December 31, 2018, the Company completed a change of business with the TSXV to be listed as a Tier 2 Life Sciences Issuer. The TSXV formally approved the Company's name change from "Relentless Resources Ltd." to "Sugarbud Craft Growers Corp." and the common shares ("Common Shares") commenced trading on the TSXV under the Company's new name and new trading symbol "SUGR" at the market opening on October 26, 2018.

COVID-19

The global impact of the Novel Coronavirus ("COVID-19") has had a significant impact on the global economy and financial markets. The impact on the Company's business and financial results cannot be reasonably estimated at this time but it could result in, among other things, supply chain issues, customer demand changes for the Company's products, logistic difficulties, personnel shortages, as well as increased government regulations or interventions which could impact the Company's financial condition or results of operations. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by the Government of Canada and other countries.

The Canadian federal and provincial governments have deemed cannabis producers and retailers to be essential services during the COVID-19 pandemic and, as such, the Company's operations have been ongoing throughout the pandemic. The Company has continued to maintain safe operations with pandemic related procedures and protocols in place at its facility including enhanced cleaning and sanitation, additional personal protective equipment, and social distancing. However, the effects that the COVID-19 pandemic have had, and are expected to continue to have, on the overall business environment and the financial markets give rise to uncertainty as to the future impacts it may have on the Company.

Going Concern

These condensed consolidated interim financial statements for the three and six months ended June 30, 2021 have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company is an early-stage company with limited cannabis operating history as well as a history of losses and negative cash flows from operating activities.

During the three and six months ended June 30, 2021, the Company incurred a loss of $1,174,676 and $1,524,049, respectively, as well as negative cash flows from operations of $2,023,396 and $3,734,440, respectively. The Company expects to comply with the financial covenants applicable to the commercial mortgage loan for at least the next twelve months. A decrease or sustained period of materially reduced demand for the Company's products may result in non-compliance with the financial covenants and reduced liquidity related to changes in the commercial mortgage loan. Non-compliance with the financial covenants in the commercial mortgage loan could result in the debt becoming due and payable on demand.

The ability of the Company to continue as a going concern depends on the Company maintaining its Health Canada Cultivation and Sales Licenses ("Licenses"), the continued support of its lenders, its ability to achieve profitable operations and its ability to raise additional financing to fund current and future operating and investing activities. There is no assurance that the Company will be able to accomplish any of the foregoing objectives.

There can be no guarantee that the Company will be able to raise additional capital on terms acceptable to it or at all. Any delay or failure to complete any additional financing would have a significant negative impact on the Company's business, results of operations and financial condition, and the Company may be forced to curtail or cease operations or seek relief under the applicable bankruptcy or insolvency laws.

As a result, these events, combined with the accumulated losses to date, indicate the existence of a material uncertainty that may result in significant doubt as to the Company's ability to continue as a going concern, and therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

The consolidated financial statements do not reflect adjustments that may be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses and the statement of financial position classification used.

2. Basis of Preparation

(a) Statement of compliance

These condensed consolidated interim financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements were prepared using the same accounting policies and methods as those disclosed in the audited consolidated financial statements for the year ended December 31, 2020. These financial statements should be read in conjunction with the audited consolidated financial statements for the Company for the year ended December 31, 2020 which have been prepared in accordance with IFRS.

These financial statements were authorized for issue by the Board of Directors on August 25, 2021.

(b) Basis of consolidation

These financial statements include the accounts of Sugarbud and its wholly owned subsidiaries, Trichome Holdings Corp. ("Trichome") and 1800905 Alberta Ltd, which are fully consolidated from the date of acquisition, being the date on which the Company obtained control, and continue to be consolidated until such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Any balances, unrealized gains or losses, or income or expenses from intercompany transactions are fully eliminated upon consolidation.

(c) Basis of measurement

These financial statements have been prepared on the historical cost basis except for biological assets and certain financial instruments, which are measured at fair value, with changes in fair value recorded in earnings.

3. Significant Accounting Judgements, Estimates, and Assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and contingent liabilities at the date of the financial statements and profit and loss during the reporting period. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be material. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can materially differ from these estimates.

In the process of applying the Company's accounting policies, the significant accounting judgements are consistent with Note 4 of the Company's December 31, 2020 consolidated financial statements.

4. Financial Instruments and Risk Management

Fair value of financial instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, commercial mortgage loan, and convertible debentures. The carrying values of these financial instruments, excluding the commercial mortgage loan and the convertible debentures, approximate their fair values as at June 30, 2021, given that they are short-term in nature. The carrying value of the commercial mortgage loan approximates its fair value as the fixed rate approximates currently available instruments with similar credit ratings and terms.

The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instruments:

i. Level 1 – Quoted prices are available in active markets for identical assets or liabilities as at the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
ii. Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
iii. Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

As at June 30, 2021 the Company did not have any financial instruments measured at Level 1 or Level 2. The Company's conversion feature on the convertible debenture is measured at Level 3, designated as FVTPL. The Company accounted for the convertible debentures as a compound financial instrument with separate host contract, derivative liability and equity components. The derivative liability was recorded at fair value using a binomial option pricing model. The warrants value was determined using the residual value after deducting the fair value of the debt and derivative instruments from the initial gross proceeds. The fair value of the conversion feature of the convertible debenture is remeasured at each reporting date with changes in fair value recognized in the consolidated statement of loss and comprehensive loss through finance costs.

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

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

(a) 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 exposed to credit risk from its cash and accounts receivable. The risk exposure is limited to their carrying amounts at the statement of financial position date.

Accounts receivable consists of goods and services tax ("GST") recoverable and other cash-based tax incentives, as well as amounts owing from customers. Credit risk associated with the GST and the tax incentives receivable balances is minimal due to the nature of the amounts. The Company evaluates the credit worthiness of the customer counterparties before credit is granted and only issues credits to credit worthy counterparties. See Note 5 for further details on the accounts receivable balance at June 30, 2021.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. 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. See Note 1 for further details on the going concern assumption and capital management.

The timing of expected cash outflows relating to financial liabilities at June 30, 2021 is as follows:

	2021	2022	2023	2024	2025	Thereafter	Total
Accounts payable and accrued liabilities	2,344,400	-	-	-	-	-	**2,344,400**
Lease obligations	102,188	197,586	151,489	103,209	90,189	-	**644,661**
Commercial mortgage loan	319,337	638,675	638,675	638,675	638,675	3,193,373	**6,067,410**
Convertible debentures[1]	8,280	16,560	146,007	-	-	-	**170,847**
Total	**2,774,205**	**852,821**	**936,171**	**741,884**	**728,864**	**3,193,373**	**9,227,318**

[1]Assumes the principal balance of the debentures outstanding as at June 30, 2021 remains unconverted and includes the interest payments until the maturity date.

(c) Market risk

i. Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The operating results and financial position of the Company are reported in Canadian dollars and the majority of the Company's business is performed within Canada. Although the Company may work with US-sourced vendors and suppliers resulting in exposure to foreign currency exchange translation gains and losses, as at June 30, 2021, the Company does not have material currency risk.

ii. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. During the six months ended June 30, 2021, the Company closed the restructuring of its commercial mortgage loan, which amended the rate of interest to a fixed rate of 4.15% from the previous variable rate of 4.25%, as such, as at June 30, 2021, the Company does not have material interest rate risk.

expressed in Canadian dollars unless otherwise noted

iii. Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company is exposed to price risk related to the determination of the fair value of the embedded derivative described in Note 16.

5. Accounts Receivable

The following is a table with an aging analysis of the outstanding accounts receivable as at June 30, 2021:

Period Outstanding		June 30, 2021		December 31, 2020
< 30 days	$	208,472	$	225,770
31 to 60 days		41,845		-
61 to 90 days		999		-
Over 90 days		2,457		-
Trade receivables	**$**	**253,773**	**$**	**225,770**
Other receivables	**$**	66,197	**$**	61,175
Total accounts receivable	**$**	**319,970**	**$**	**286,945**

The other accounts receivable balance consists of a GST receivable of $66,197 (December 31, 2020 - $61,175).

6. Inventory

Inventory is comprised of:

		June 30, 2021		December 31, 2020
Harvested cannabis	$	5,625,534	$	2,814,456
Cannabis work-in-progress		421,732		169,046
Raw materials		129,740		109,494
Purchased cannabis		12,427		12,427
Total inventory	**$**	**6,189,433**	**$**	**3,105,423**

During the three months ended June 30, 2021, the Company recognized $197,196 (June 30, 2020 - Nil) related to fair value adjustments on the growth of biological assets included in inventory sold. During the six months ended June 30, 2021, the Company recognized $436,358 (June 30, 2020 – Nil) related to fair value adjustments on the growth of the biological assets included in inventory sold.

At June 30, 2021, the Company held 803,741 grams of harvested cannabis in inventory (December 31, 2020 – 486,668).

7. Biological Assets

Biological assets are comprised of:

		June 30, 2021		December 31, 2020
Balance, beginning of period	**$**	**923,284**	**$**	**70,072**
Production costs capitalized		1,003,972		1,676,255
Change in fair value due to biological transformation		2,405,317		2,322,001
Transferred to inventory upon harvest		(3,601,520)		(3,145,044)
Balance, end of period	**$**	**731,053**	**$**	**923,284**

The Company measures biological assets, consisting of cannabis plants, at fair value less costs to sell. The fair value of the biological assets is determined using a model which is based on the expected harvest yield (grams per plant) for plants currently being cultivated, adjusted for the expected selling price per gram and for any additional post-harvest costs to be incurred.

The following inputs are used in determining the fair value of biological assets:

(a) Weighted average net selling price per gram: calculated as the weighted average net selling price of cannabis, adjusted for expectations about future pricing;

expressed in Canadian dollars unless otherwise noted

(b) Stage of growth: represents the number of weeks out of the growing cycle that biological assets have reached as of the measurement date.
(c) Yield: consists of the number of grams of finished cannabis that is expected per cannabis plant;
(d) Post-harvest costs: calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants post-harvest.

The Company believes that any reasonably possible change in the key assumptions would not cause a material change in the carrying value of biological assets.

Management believes the most significant unobservable inputs and their impact on fair value of biological assets are as follows:

	June 30, 2021	December 31, 2020	10% change as at June 30, 2021	10% change as at December 31, 2020
Weighted average net selling price per gram	$ 7.21	$ 6.39	$ 141,807	$ 224,186
Average yield per plant	90.50	90.53	$ 83,581	$ 92,804
Post-harvest cost per gram	$ 0.98	$ 0.69	$ 19,334	$ 24,242
Stage of growth	61%	44%	$ 11,269	$ 35,401

As at June 30, 2021 it is estimated that the Company's biological assets will yield approximately 196,566 grams of dry cannabis when harvested (December 31, 2020 – 175,981). During the three months ended June 30, 2021 the Company harvested 212,682 grams (June 30, 2020 – Nil) of dry cannabis. During the six months ended June 30, 2021 the Company harvested 501,066 grams (June 30, 2020 – 61,932).

8. Property, Plant and Equipment

		Land	Facility	Office Equipment and Other	Total
Cost					
At December 31, 2019	**$**	**323,000**	**10,259,551**	**200,995**	**10,783,546**
Additions		-	1,013,055	-	1,013,055
Impairment		-	-	(571)	(571)
At December 31, 2020	**$**	**323,000**	**11,272,606**	**200,424**	**11,796,030**
Additions		-	305,717	4,437	310,154
At June 30, 2021	**$**	**323,000**	**11,578,323**	**204,861**	**12,106,184**
Accumulated Depreciation					
At December 31, 2019	**$**	**-**	**(200,856)**	**(3,624)**	**(204,480)**
Depreciation		-	(605,408)	(20,989)	(626,397)
At December 31, 2020	**$**	**-**	**(806,264)**	**(24,613)**	**(830,877)**
Depreciation		-	(340,657)	(10,712)	(351,369)
At June 30, 2021	**$**	**-**	**(1,146,921)**	**(35,325)**	**(1,182,246)**
Net Book Value					
At December 31, 2020	**$**	**323,000**	**10,466,342**	**175,811**	**10,965,153**
At June 30, 2021	**$**	**323,000**	**10,431,402**	**169,536**	**10,923,938**

During the three months ended June 30, 2021, the Company capitalized $57,528 (June 30, 2020 – $22,826) of depreciation within inventory and biological assets. During the six months ended June 30, 2021, the Company capitalized $113,790 (June 30, 2020 - $46,804) of depreciation within inventory and biological assets.

expressed in Canadian dollars unless otherwise noted

9. Right-of-use Assets

		Vehicles	Equipment	Retail	Total
Cost					
At December 31, 2019	**$**	**256,736**	**539,389**	**38,490**	**834,615**
Additions		-	-	-	-
Disposals		-	-	-	-
At December 31, 2020	**$**	**256,736**	**539,389**	**38,490**	**834,615**
Additions		-	-	-	-
Disposals		-	-	-	-
At June 30, 2021	**$**	**256,736**	**539,389**	**38,490**	**834,615**
Accumulated Depreciation					
At December 31, 2019	**$**	**(38,021)**	**(28,203)**	**(38,490)**	**(104,714)**
Depreciation		(65,278)	(97,034)	-	(162,312)
At December 31, 2020	**$**	**(103,299)**	**(125,237)**	**(38,490)**	**(267,026)**
Depreciation		**(32,639)**	**(47,727)**	-	**(80,366)**
At June 30, 2021		**(135,938)**	**(172,964)**	**(38,490)**	**(347,392)**
Net Book Value					
At December 31, 2020	**$**	**153,437**	**414,152**	-	**567,590**
At June 30, 2021	**$**	**120,798**	**366,425**	-	**487,223**

10. Share Capital

(a) Authorized

The authorized share capital of the Company is comprised of an unlimited number of voting Common Shares and preferred shares.

The holders of Common Shares are entitled to receive dividends as declared by the Company and are entitled to one vote per share. All Common Shares are of the same class with equal rights and privileges.

(b) Issued

	Shares		Amount
Balance at December 31, 2020	**462,209,841**	**$**	**38,013,449**
Issuance of common shares (i)	76,670,500		3,776,313
Exercise of warrants (ii)	605,000		30,250
Conversion of convertible debenture (iii)	18,935,932		805,897
Share issuance costs	-		(435,804)
Balance at June 30, 2021	**558,421,273**	**$**	**42,190,105**

i. During the six months ended June 30, 2021, the Company closed a bought-deal public offering, for aggregate gross proceeds of $4,600,230, pursuant to which the Company issued 76,670,500 units of the Company at a price of $0.06 per unit including the full exercise of the over-allotment option. Each unit is comprised of one Common Share of the Company and one Common Share purchase warrant ("2021 Warrants") of the Company. Each 2021 Warrant entitles the holder thereof to purchase one Common Share at an exercise price of $0.08 at any time until March 16, 2024. The net proceeds from the public offering were $4,069,368, in consideration of the services provided by the agent and other costs in connection with the public offering the Company paid the agent a cash commission and other expenses, as well as incurring transaction costs for professional fees and other expenses, totaling $530,862. These transaction costs have been allocated to the Common Shares and the 2021 Warrants based on their pro-rata values.

expressed in Canadian dollars unless otherwise noted

ii. During the six months ended June 30, 2021, 605,000 Debenture Warrants were exercised at a price of $0.05 per Common Share for total proceeds of $30,250.

iii. During the six months ended June 30, 2021, $755,000 principal amount of Debenture Units were converted into 15,100,000 Common Shares of the Company at an average exercise price of $0.042. In connection with the Debenture Units that were converted, as part of the make whole provision, 3,835,932 Common Shares of the Company were issued.

11. Warrants

	Warrants		Weighted average exercise price
Balance at December 31, 2020	**268,653,508**	**$**	**0.078**
Warrants issued – public offering (i)	76,670,500		0.080
Warrants issued – public offering compensation warrants (i)	5,366,935		0.060
Warrants exercised (ii)	(605,000)		0.050
Balance at June 30, 2021	**350,085,943**	**$**	**0.078**

i. During the six months ended June 30, 2021, the Company closed a bought-deal public offering, for aggregate gross proceeds of $4,600,230, pursuant to which the Company issued 76,670,500 units of the Company at a price of $0.06 per unit including the full exercise of the over-allotment option. Each unit is comprised of one Common Share of the Company and one Common Share purchase warrant of the Company. Each 2021 Warrant entitles the holder thereof to purchase one Common Share at an exercise price of $0.08 at any time until March 16, 2024. The net proceeds from the public offering were $4,069,368, in consideration of the services provided by the agent and other costs in connection with the public offering the Company paid the agent a cash commission and other expenses, as well as incurring transaction costs for professional fees and other expenses, totaling $530,862. These transaction costs have been allocated to the Common Shares and the 2021 Warrants based on their pro-rata values.

   Additionally, the Company issued to the agent who led the public offering 5,366,935 broker warrants ("Broker Warrants"). Each Broker Warrant is exercisable for one Common Share of the Company at an exercise price of $0.06 at any time until March 16, 2024.

ii. During the six months ended June 30, 2021, 605,000 Debenture Warrants were exercised at a price of $0.05 per Common Share for total proceeds of $30,250.

The weighted average remaining life of the Company's warrants as at June 30, 2021 are 2.73 years.

The Company valued the 2021 Warrants by using the Black-Scholes option pricing model with the following inputs:

Six months ended	June 30, 2021
Volatility	54.20%
Life	3 years
Risk-free interest rate	0.79%
Exercise price	$0.08
Stock price	$0.049
Dividend yield	Nil

12. Stock Based Compensation

The Company has a stock option plan (the "Plan") for its officers, directors, employees and consultants. Under the Plan, the Company may grant options to purchase up to 10% of the outstanding Common Shares. The options have a five-year term and generally vest in tranches. The policies of the TSXV require "rolling" stock option plans to be approved on an annual basis by the shareholders of a listed issuer. During the six months ended June 30, 2021, the Company granted stock options to employees of the Company, the approved number and weighted average exercise price of the stock options are as follows:

expressed in Canadian dollars unless otherwise noted

	Options outstanding		Weighted average exercise price
Balance at December 31, 2020	**30,006,667**	**$**	**0.13**
Granted during the period (i)	23,460,000		0.05
Forfeited during the period	(1,000,000)		0.09
Balance at June 30, 2021	**52,466,667**	**$**	**0.10**
Exercisable at June 30, 2021	34,380,000	$	0.10

i. During the six months ended June 30, 2021, the Company granted 10,660,000 stock options to employees of the Company. The options expire five years from the date of the grant and are exercisable at a price of $0.05 per common share. The options vest at one third on the grant date and one third on each of the first and second anniversaries of the grant date.

   During the three months ended June 30, 2021, the Company granted 12,800,000 stock options to directors, officers, and advisors of the Company. The options expire five years from the date of grant and are exercisable at a price of $0.05 per common share. The options vest at one third on the grant date and one third on each of the first and second anniversaries of the grant date.

During the three months ended June 30, 2021, stock-based compensation expense recognized was $122,868 (June 30, 2020 - $121,247). During the six months ended June 30, 2021, stock-based compensation expense recognized was $213,969 (June 30, 2020 - $280,500). The weighted average remaining life of the Company's stock options as at June 30, 2021 was 6.48 years.

The Company values stock-based compensation by using the Black-Scholes option pricing model. Stock options granted during the three and six months ended June 30, 2021 were valued using the following inputs:

	Three months ended June 30, 2021	**Six months ended June 30, 2021**
Volatility	53.41%	50.69%
Life	5 years	5 years
Risk-free interest rate	0.71%	0.37%
Exercise price	$0.05	$0.05
Stock price	$0.035	$0.035
Dividend yield	Nil	Nil

13. Loss per Share

Three and six months ended		**June 30, 2021**		**June 30, 2020**
Loss per share, basic and diluted	$	(0.00)	$	(0.01)
Weighted average shares outstanding		522,319,882		395,350,950

Diluted loss per share is calculated by dividing total loss by the sum of the weighted average number of common shares outstanding as well as all additional common shares that would have been outstanding if potentially dilutive outstanding shares instruments had been issued as common shares during the period. The periods presented in the consolidated statement of loss and comprehensive loss reported a net loss and, as such, the applicable outstanding share instruments are considered anti-dilutive.

14. Connect First Commercial Mortgage Loan

On May 28, 2020, Sugarbud entered into a new secured commercial mortgage loan with Connect First Credit Union (formerly First Calgary Credit Union) ("Connect First") for $5.03 million (the "commercial mortgage loan"). The commercial mortgage loan replaced the Company's former credit facility. On January 13, 2021, the Company restructured the commercial mortgage loan - increasing the commercial mortgage loan to $5.22 million and extending maturity until five years from the closing date. The committed 5-year fixed interest rate under the commercial mortgage loan is 4.15%; a reduction from the previous variable rate floor of 4.25%, with an amortization period of 10 years.

expressed in Canadian dollars unless otherwise noted

The commercial mortgage loan is guaranteed by Sugarbud and its wholly owned subsidiaries Trichome and 1800905 Alberta Ltd. and has general security executed by the Company, pursuant to which the Company grants Connect First a first charge security interest over all present and after acquired personal property of the Company.

Further, on January 13, 2021, the Company closed a revolving operating line of credit with Connect First (the "credit facility") for an amount up to 75% of the Company's good quality accounts receivable, up to a maximum of $500,000. The committed rate is Connect First's lending rate plus 1.50% per annum, calculated daily, payable monthly in arrears.

		June 30, 2021		December 31, 2020
Beginning balance	$	4,724,402	$	-
Proceeds from commercial mortgage loan		398,674		5,030,000
Proceeds from credit facility		188,879		-
Commercial mortgage loan repayment		(105,480)		(202,816)
Debt issuance costs		-		(109,149)
Accretion		5,457		6,367
Ending balance	$	**5,211,932**	$	**4,724,402**
Current portion		**619,010**		**419,055**
Long-term portion		**4,592,922**		**4,305,347**
Total	$	**5,211,932**	$	**4,724,402**

15. Convertible Debentures

On June 24, 2020 ("Closing Date"), Sugarbud completed a fully subscribed public offering of Debenture Units at a price of $1,000 per debenture unit for proceeds of $4 million. Each Debenture Unit consists of: (i) one 12.0% secured Convertible Debenture; and (ii) 20,000 Debenture Warrants. Each Debenture Warrant entitles the holder to purchase one Common Share in the capital of the Company at an exercise price of $0.05, at any time up to June 24, 2023.

The Convertible Debentures bear interest at a rate of 12.0% per annum from June 24, 2020, payable semi-annually in arrears, in cash, on the last day of June and December of each year with the first payment having occurred on June 30, 2020 and matures on June 24, 2023. Interest is computed on the basis of a 360-day year composed of twelve 30-day months.

The Company issued, to the agent who led the public offering, 12,800,000 compensation warrants ("Compensation Warrants"). Each Compensation Warrant is exercisable for one Common Share at an exercise price of $0.05 until June 24, 2023.

During the six months ended June 30, 2021, $755,000 principal amount of Debenture units were converted into 15,100,000 Common Shares of the Company at an average exercise price of $0.042. In connection with the Debenture Units that were converted, as part of the make whole provision, 3,835,932 Common Shares of the Company were issued.

		June 30, 2021		December 31, 2020
Beginning balance	$	621,202	$	-
Additions		-		4,000,000
Equity portion of convertible debt, before taxes		-		(656,996)
Transaction costs allocated to the debenture		-		(638,270)
Conversion of convertible debenture		(636,635)		(2,138,967)
Accretion of host contract		46,077		73,111
Change in fair value of conversion feature		(9,819)		(17,676)
Ending balance	$	**20,825**	$	**621,202**

expressed in Canadian dollars unless otherwise noted

16. General and Administrative Expenses

	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Professional fees	$ 190,220	$ 90,801	$ 274,150	$ 290,850
Salaries, wages and benefits	700,176	406,876	1,317,550	830,513
Consulting fees	79,669	113,860	150,659	309,771
Office and general	4,948	10,850	9,698	43,850
Sales & marketing	183,602	13,608	188,727	13,922
Insurance	129,444	45,300	212,501	90,581
Facility overhead and other	130,473	130,656	376,912	642,235
Total general and administrative expenses	**$ 1,418,532**	**$ 811,951**	**$ 2,530,197**	**$ 2,221,722**

During the three and six months ended June 30, 2021 the Company incurred $154,185 of temporary price reductions, related to the sale of cannabis, included in sales & marketing expense.

17. Finance Costs

	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Cash finance costs (income)	$ 69,698	$ 936,580	$ 193,738	$ 1,010,322
Non-cash finance costs (income)	(64,718)	33,195	219,258	72,814
Total finance costs	**$ 4,980**	**$ 969,775**	**$ 412,996**	**$ 1,083,136**

18. Related Party Transactions

The following is a summary of the Company's related party transactions during the quarter. Compensation of key management personnel includes short-term and long-term benefits, including salaries and stock options. The key management personnel of the Company are the Company's executive management team.

Six months ended	June 30, 2021	June 30, 2020
Stock based compensation	$ 145,169	$ 280,500
Compensation earned by directors	132,501	155,000
Compensation earned by key management	312,500	300,705
Restructuring expenditures	-	415,310
Total	**$ 590,170**	**$ 1,151,515**

19. Commitments and Contingencies

Periodically, the Company may become involved in various claims and legal actions which occurred in the ordinary course of operations. The results of such legal proceedings or related matters cannot be determine with certainty.

In 2019, the Company entered into a commitment to purchase land adjacent to its Facility, which was scheduled to close in 2020. The land purchase was not completed, and as such, the seller of the land was seeking damages and other relief. During the quarter, the Company reached a final settlement of $465,000 payable in instalments.

20. Subsequent Events

Subsequent to June 30, 2021, the Company closed a $500,000 Term Loan, which is an extension of the existing Commercial Mortgage Loan with Connect First. The committed rate is a fixed rate of 4.15% per annum, calculated daily, payable monthly in arrears. The proceeds will be used for general working capital purposes.