2022

sugarbud

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2022

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 months ended March 31, 2022, and 2021, 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 months ended March 31, 2022, and 2021 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	March 31, 2022	December 31, 2021
Assets			
Current assets			
Cash		$ 20,092	$ -
Accounts receivable	5	508,615	291,639
Prepaid expenses and deposits		251,617	234,896
Inventory	6	3,345,150	2,656,658
Biological assets	7	857,713	644,629
		4,983,187	3,827,822
Non-current assets			
Intangible asset		2,451,268	2,467,588
Non-current deposits		115,000	115,000
Property, plant and equipment	8	10,558,149	10,694,849
Right-of-use asset	9	298,375	407,757
Total Assets		$ 18,405,979	$ 17,513,016
Liabilities			
Current liabilities			
Overdraft	14	$ 482,620	$ 8,091
Accounts payable and accrued liabilities		3,878,292	3,172,455
Current portion of lease obligations		101,700	156,837
Current portion of commercial mortgage loan	14	6,967,829	6,822,653
Convertible debentures to be issued	19	170,000	-
		11,600,441	10,160,036
Non-current liabilities			
Lease obligations		232,768	291,859
Convertible debentures	15	89,572	82,545
Total Liabilities		$ 11,922,781	$ 10,534,440
Shareholders' Equity			
Share capital	10	42,596,623	42,596,523
Contributed surplus	11	8,357,400	8,332,362
Deficit		(44,470,825)	(43,950,309)
Total Shareholders' Equity		$ 6,483,198	6,978,576
Total Liabilities and Shareholders' Equity		$ 18,405,979	$ 17,513,016

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

SIGNED ON BEHALF OF THE BOARD

"Dan Wilson"
Director

"Janice Comeau"
Director

expressed in Canadian dollars unless otherwise noted

Three months ended	**Note**	**March 31, 2022**	**March 31, 2021**
Gross revenue		$ 930,585	$ 679,755
Excise taxes		(214,022)	(161,739)
Net revenue		716,563	518,016
Cost of goods sold		461,742	395,675
Gross profit before fair value adjustments		254,821	122,341
Change in fair value of biological assets	7	656,355	1,552,509
Change in fair value through inventory	6	(171,120)	(239,162)
Gross profit		740,056	**1,435,688**
Expenses			
General and administrative	16	$ 973,263	$ 1,111,666
Stock based compensation	12	25,038	91,100
Depreciation and amortization	8,9	209,913	174,281
Loss from operations		(468,158)	**58,641**
Finance costs	17	96,903	408,016
Gain on disposal of right-of-use assets	9	(44,545)	-
Loss before income tax		(520,516)	**(349,375)**
Income tax		-	-
Total loss		$ (520,516)	**$ (349,375)**
Loss per share, basic and diluted	13	$ (0.09)	$ (0.07)

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

expressed in Canadian dollars unless otherwise noted

	Note	Number of common shares[1]		Share capital	Contributed surplus	Deficit	Total
Balance at December 31, 2020		4,622,096	$	38,013,449	7,255,726	(35,246,115)	10,023,070
Issuance of common shares – public offering	10	766,705		3,776,313	823,917	-	4,600,230
Convertible debenture conversion	15	187,019		794,736	-	-	794,736
Exercise of warrants	11	6,000		30,000	-	-	30,000
Stock-based compensation	12	-		-	91,100	-	91,100
Share issuance costs	10	-		(435,778)	(95,084)	-	(530,862)
Comprehensive loss		-		-	-	(349,375)	(349,375)
Balance at March 31, 2021		**5,581,820**	$	**42,178,720**	**8,075,669**	**(35,595,490)**	**14,658,899**

[1] Common share amounts have been retrospectively restated for all prior periods to reflect the Share Consolidation effective February 15, 2022. Refer to Note 2(c) – Basis of Measurement for more information.

	Note	Number of common shares[1]		Share capital	Contributed surplus	Deficit	Total
Balance at December 31, 2021		5,699,793	$	42,596,523	8,332,362	(43,950,309)	6,978,576
Exercise of warrants	11	10		100	-	-	100
Stock-based compensation	12	-		-	25,038	-	25,038
Comprehensive loss		-		-	-	(520,516)	(520,516)
Balance at March 31, 2022		**5,699,803**	$	**42,596,623**	**8,357,400**	**(44,470,825)**	**6,483,198**

[1] Common share amounts have been retrospectively restated for all prior periods to reflect the Share Consolidation effective February 15, 2022. Refer to Note 2(c) – Basis of Measurement for more information.

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

expressed in Canadian dollars unless otherwise noted

Three months ended	Note	March 31, 2022	March 31, 2021
Cash used in operating activities:			
Loss for the period		$ (520,516)	$ (349,375)
Adjustments for non-cash items:			
Depreciation and amortization	8,9	209,913	174,281
Stock based compensation	12	25,038	91,100
Finance costs	17	96,903	408,016
Change in fair value of biological asset	7	(656,355)	(1,552,509)
Change in fair value through inventory	6	171,120	239,162
Gain on disposal of right-of-use assets		(44,545)	-
Change in non-cash working capital		80,597	(721,743)
Cash used in operating activities		(637,845)	(1,711,068)
Cash used in investing activities:			
Additions to property, plant and equipment	8	(51,379)	(57,614)
Proceeds from disposal of right-of-use assets	9	41,194	-
Cash used in investing activities		(10,185)	(57,614)
Cash provided by financing activities:			
Net proceeds from commercial mortgage loan	14	201,619	446,585
Proceeds from overdraft	14	474,529	-
Convertible debentures to be issued	19	170,000	-
Payment of commercial mortgage loan	14	(62,901)	-
Exercise of warrants	11	100	30,000
Interest paid during the period	17	(83,418)	(124,040)
Repayment of lease obligations		(31,807)	(37,939)
Net payment of convertible debenture interest reserve		-	(47,121)
Issuance of units, net of issuance costs	10	-	4,069,368
Cash provided by financing activities		668,122	4,336,853
Increase in cash		20,092	2,568,171
Cash, beginning of period		-	21,274
Cash, end of period		$ 20,092	$ 2,589,445

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 address is 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.

Going Concern

These condensed consolidated interim financial statements for the three months ended March 31, 2022, 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 months ended March 31, 2022, the Company incurred a loss of $520,516 and had cash outflows from operations of $637,845. The Company's twelve-month forecast indicates a potential breach of its financial covenants attached to the commercial mortgage loan as at December 31, 2022, this event would indicate an event of default which would enable Connect First to demand immediate repayment of all amounts due. In addition, as at March 31, 2022, the Company's authorized overdraft of up to 75% of the Company's good quality accounts receivable was overdrawn by $169,497, this event also indicates an event of default, as a result the Company has reclassified its commercial mortgage loan to current. The Company is in on-going discussions with Connect First to renegotiate the covenants attached to the commercial mortgage loan.

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, 2021. These financial statements should be read in conjunction with the audited consolidated financial statements for the Company for the year ended December 31, 2021, which have been prepared in accordance with IFRS.

These financial statements were authorized for issue by the Board of Directors on May 30, 2022.

(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.

On February 15, 2022, the Company completed a one-for-one hundred (1:100) reverse share split of all of its issued and outstanding common shares ("Share Consolidation"), resulting in a reduction in the issued and outstanding shares from 569,979,606 to 5,669,793. All share and per share data presented in the Company's consolidated financial statements have been retroactively adjusted to reflect the Share Consolidation. Following the Share Consolidation, the number of outstanding common share purchase warrants, options, or other convertible securities of the Company were not altered; however, the exercise price and number of shares issuable on the exercise of any warrants, options, or other convertible securities of the Company were automatically proportionally adjusted on the basis of the 100:1 consolidation ratio, such that one hundred warrants, options, or other convertible securities are now exercisable for one post-consolidation Common Share.

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, 2021, 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 March 31, 2022, 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 March 31, 2022 the Company did not have any financial instruments measured at Level 2 or Level 3. The Company's conversion feature on Convertible Debentures is designated as FVTPL. The fair value of the Convertible Debentures as at March 31, 2022, was determined using Level 1 inputs as the debentures are traded on the TSX-V under the trading symbol "SUGR.DB" and "SUGR.WS". The Company accounted for the Convertible Debentures as a compound financial instrument with separate host contract, derivative liability, and equity-classified warrants. 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 Debentures 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 amounts owing from customers. The Company evaluates the credit worthiness of the customer counterparties before credit is granted and only issues credits to credit worthy counterparties. Refer to Note 5.

(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 March 31, 2022 is as follows:

	2022	2023	2024	2025	Total
Accounts payable and accrued liabilities	3,878,292	-	-	-	**3,878,292**
Lease obligations	100,640	124,206	103,209	90,189	**418,244**
Commercial mortgage loan	8,417,097	-	-	-	**8,417,097**
Convertible debentures[1]	16,560	146,007	-	-	**162,567**
Total	**12,412,589**	**270,213**	**103,209**	**90,189**	**12,876,200**

[1]Assumes the principal balance of the debentures outstanding as at March 31, 2022 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 because of changes in foreign exchange rates. The operating results and financial position of the Company are reported in Canadian dollars. The Company may work with US-sourced vendors and suppliers resulting in exposure to foreign currency exchange gains and losses. As at March 31, 2022, 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 because of changes in market interest rates. As at March 31, 2022, the Company had a fixed rate of 4.15% on its commercial mortgage loan, as such the Company does not have material interest rate risk.

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 15.

expressed in Canadian dollars unless otherwise noted

5. Accounts Receivable

The following is a table with an aging analysis of the outstanding accounts receivable as at March 31, 2022:

Period Outstanding		March 31, 2022		December 31, 2021
< 30 days	$	508,362	$	220,273
31 to 60 days		253		71,366
61 to 90 days		-		-
Over 90 days		-		-
Total accounts receivable	**$**	**508,615**	**$**	**291,639**

As at March 31, 2022, two customers represented 85% of total accounts receivables. Customer A accounted for 59% and Customer B accounted for 26%. Both customers continue to pay within the agreed upon payment terms. As such, the Company has not set up an allowance for the accounts presented above as they are considered fully collectible.

6. Inventory

Inventory is comprised of:

		March 31, 2022		December 31, 2021
Harvested cannabis	$	2,537,708	$	1,956,155
Cannabis work-in-progress		694,010		582,946
Raw materials		113,432		117,557
Total inventory	**$**	**3,345,150**	**$**	**2,656,658**

During the three months ended March 31, 2022, the Company recognized of $171,120 (March 31, 2021 - $239,162) related to fair value adjustments on the growth of biological assets included in inventory sold.

During the three months ended March 31, 2022, inventories expensed directly to cost of goods sold were $430,046 (March 31, 2021 - $370,395).

At March 31, 2022, the Company held 984,107 grams of harvested cannabis in inventory (December 31, 2021 – 1,023,223).

7. Biological Assets

Biological assets are comprised of:

		March 31, 2022		December 31, 2021
Balance, beginning of period	**$**	**644,629**	**$**	**923,384**
Production costs capitalized		457,316		1,613,601
Change in fair value due to biological transformation		656,355		1,933,652
Transferred to inventory upon harvest		(900,588)		(3,825,908)
Balance, end of period	**$**	**857,712**	**$**	**644,629**

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;
(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.

expressed in Canadian dollars unless otherwise noted

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:

	March 31, 2022	December 31, 2021	10% change as at March 31, 2022	10% change as at December 31, 2021
Weighted average net selling price per gram	$ 5.13	$ 5.13	$ 138,328	$ 169,135
Average yield per plant	90.50	90.50	$ 85,618	$ 64,463
Post-harvest cost per gram	$ 2.00	$ 2.00	$ 19,155	$ 65,925
Stage of growth	44%	46%	$ 181,242	$ 64,463

As at March 31, 2022 it is estimated that the Company's biological assets will yield approximately 269,419 grams of dry cannabis when harvested (December 31, 2021 – 204,296). During the three months ended March 31, 2022, the Company harvested 196,863 grams (March 31, 2021 – 288,384) of dry cannabis.

8. Property, Plant and Equipment

		Land	Facility	Office Equipment and Other	Total
Cost					
At December 31, 2020	**$**	**323,000**	**11,272,606**	**200,424**	**11,796,030**
Additions		-	433,583	16,874	450,457
At December 31, 2021	**$**	**323,000**	**11,706,189**	**217,298**	**12,246,487**
Additions		-	48,717	2,662	51,379
At March 31, 2022	**$**	**323,000**	**11,754,906**	**219,960**	**12,297,866**
Accumulated Depreciation					
At December 31, 2020	**$**	**-**	**(806,264)**	**(24,613)**	**(830,877)**
Depreciation		-	(659,282)	(61,479)	**(720,761)**
At December 31, 2021	**$**	**-**	**(1,465,546)**	**(86,092)**	**(1,551,638)**
Depreciation		-	(172,264)	(15,815)	(188,079)
At March 31, 2022	**$**	**-**	**(1,637,810)**	**(101,907)**	**(1,739,717)**
Net Book Value					
At December 31, 2021	**$**	**323,000**	**10,240,644**	**131,206**	**10,965,153**
At March 31, 2022	**$**	**323,000**	**10,117,096**	**118,053**	**10,558,149**

During the three months ended March 31, 2022, the Company capitalized $24,799 (March 31, 2021 – $56,262) of depreciation within inventory and biological assets.

expressed in Canadian dollars unless otherwise noted

9. Right-of-use Assets

		Vehicles	Equipment	Total
Cost				
At December 31, 2020	$	256,736	539,389	796,125
Disposals		-	-	-
At December 31, 2021	$	256,736	539,389	796,125
Disposals		(79,069)	-	(79,069)
At March 31, 2022	$	177,667	539,389	717,056
Accumulated Depreciation				
At December 31, 2020	$	(103,299)	(125,237)	(228,536)
Depreciation		(65,278)	(94,554)	(159,832)
At December 31, 2021	$	(168,577)	(219,792)	(388,369)
Depreciation		(6,899)	(23,413)	(30,312)
At March 31, 2022		(175,476)	(243,205)	(418,681)
Net Book Value				
At December 31, 2021	$	88,159	319,597	407,757
At March 31, 2022	$	2,191	296,184	298,375

During the three months ended March 31, 2022, the Company disposed of six leased trucks resulting in gross proceeds of $41,194 and a gain on disposal of $44,545.

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

As described under Note 2(c), on February 15, 2022, the Company completed a one-for-one hundred (1:100) Share Consolidation, resulting in a reduction in the issued and outstanding shares from 569,979,606 to 5,669,793. All share and per share data presented in the Company's consolidated financial statements have been retroactively adjusted to reflect the Share Consolidation. Following the Share Consolidation, the number of outstanding common share purchase warrants, options, or other convertible securities of the Company were not altered; however, the exercise price and number of shares issuable on the exercise of any warrants, options, or other convertible securities of the Company were automatically proportionally adjusted on the basis of the 100:1 consolidation ratio, such that one hundred warrants, options, or other convertible securities are now exercisable for one post-consolidation Common Share.

	Shares		Amount
Balance at December 31, 2021	5,699,793	$	42,596,523
Exercise of warrants	10		100
Balance at March 31, 2022	5,699,803	$	42,596,623

During the three months ended March 31, 2022, 1,000 Debenture Warrants were exercised for 10 Common Shares at a price of $0.10 per Common Share for total proceeds of $100.

expressed in Canadian dollars unless otherwise noted

11. Warrants

	Warrants		Weighted average exercise price
Balance at December 31, 2021	**358,960,943**	**$**	**7.80**
Exercise of warrants	(1,000)		10.00
Balance at March 31, 2022	**358,959,943**	**$**	**7.80**

During the three months ended March 31, 2022, 1,000 Debenture Warrants were exercised for 10 Common Shares at a price of $10.00 per Common Share for total proceeds of $100.

The weighted average remaining life of the Company's warrants as at March 31, 2022 are 1.51 years.

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 three months ended March 31, 2022, the approved number and weighted average exercise price of the stock options are as follows:

	Options outstanding		Weighted average exercise price
Balance at December 31, 2021	**50,766,667**	**$**	**9.70**
Forfeited during the period	(400,000)		5.00
Balance at March 31, 2022	**50,366,667**	**$**	**9.74**
Exercisable at March 31, 2022	33,346,667	$	9.63

During the three months ended March 31, 2022, stock-based compensation expense recognized was $25,038 (March 31, 2021 - $91,100). The weighted average remaining life of the Company's stock options as at March 31, 2022 was 5.04 years.

13. Loss per Share

Three months ended		March 31, 2022		March 31, 2021
Loss per share, basic and diluted	$	(0.09)	$	(0.07)
Weighted average shares outstanding		5,699,795		4,857,864

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") (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 five-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.

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.

expressed in Canadian dollars unless otherwise noted

On January 13, 2021, the Company closed an authorized overdraft with Connect First 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. As at March 31, 2022, the Company's authorized overdraft was overdrawn by $169,497 with the approval of Connect First.

On July 7, 2021, the Company closed a $500,000 extension to its 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. In addition, the Company increased its available letter of credit by $40,000. The letter of credit committed rate is the prime rate plus 1% per annum, calculated daily, payable monthly in arrears (if the letter of credit is called). As at March 31, 2022, the Company had fully utilized the letter of credit.

On October 14, 2021, the Company closed a $900,000 extension to 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.

On December 24, 2021, the Company closed a $900,000 extension to 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 and holds a five-year maturity. As part of the restructured commercial mortgage loan, the Company received a six-month principal holiday on the existing commercial mortgage loan, as well as a twelve-month principal holiday on the most recent extension of the commercial mortgage loan, whereby only the interest portion of the repayment is required. During the three months ended March 31, 2022, the Company received the remaining proceeds of $225,000 related to the extension to the existing commercial mortgage loan.

	March 31, 2022	December 31, 2021
Beginning balance	$ **6,830,744**	$ **4,724,402**
Proceeds from commercial mortgage loan	225,000	2,473,675
Proceeds from overdraft	474,529	8,091
Amounts drawn on credit card	-	40,000
Commercial mortgage loan repayment	(62,901)	(377,193)
Debt issuance costs	(23,381)	(51,205)
Accretion	6,458	12,974
Ending balance	$ **7,450,449**	$ **6,830,744**
Presented as:		
Overdraft	**482,620**	**8,091**
Current portion of commercial mortgage loan	**6,967,829**	**6,822,653**
Total	$ **7,450,449**	$ **6,830,744**

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. One hundred Debenture Warrants entitle the holder to purchase one Common Share in the capital of the Company at an exercise price of $5.00, 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 mature 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"). One hundred Compensation Warrants are exercisable for one Common Share at an exercise price of $5.00 until June 24, 2023.

expressed in Canadian dollars unless otherwise noted

	March 31, 2022		December 31, 2021	
Beginning balance	**$**	**82,545**	**$**	**621,202**
Conversion of convertible debenture		-		(636,635)
Accretion of host contract		7,027		51,508
Change in fair value of conversion feature		-		46,470
Ending balance	**$**	**89,572**	**$**	**82,545**

16. General and Administrative Expenses

Three months ended	March 31, 2022		March 31, 2021	
Professional fees	$	21,659	$	83,931
Salaries, wages and benefits		560,207		617,374
Consulting fees		96,535		70,990
Office and general		2,519		4,749
Sales & marketing		61,231		5,125
Insurance		92,638		83,057
Facility overhead and other		138,474		246,440
Total general and administrative expenses	**$**	**973,263**	**$**	**1,111,666**

17. Finance Costs

Three months ended	March 31, 2022		March 31, 2021	
Cash finance costs (income)				
Interest on right of use leases	$	12,035	$	16,288
Interest on commercial mortgage loan		71,383		52,027
Interest on convertible debenture		-		55,725
	$	83,418	$	124,040
Non-cash finance costs (income)				
Change in fair value of derivative liability		-		11,861
Accretion debt issuance costs		6,458		2,729
Accretion convertible debentures		7,027		269,386
	$	13,485	$	283,976
Total finance costs	**$**	**96,903**	$	**408,016**

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.

Three months ended	March 31, 2022		March 31, 2021	
Stock based compensation	$	14,761	$	45,714
Compensation earned by directors		80,000		55,000
Compensation earned by key management		156,250		156,250
Total	**$**	**251,011**	**$**	**256,964**

As at March 31, 2022, of the compensation earned by key management $127,000 remains unpaid and all of the compensation earned by directors remains unpaid. Total unpaid compensation for key management amounts to $292,000 and total unpaid compensation for directors amounts to $346,000.

19. Subsequent Events

i. Subsequent to March 31, 2022, the Company closed the first tranche of its marketed public offering (the "Offering") of convertible debenture units (each, a "Debenture Unit") for aggregate proceeds of $848,000. Each Debenture Unit under the Offering consists of: (i) one 12.0% secured convertible debenture (each, a "Debenture"); and (ii) 1,000 Common Share purchase warrants (each, a "2022 Warrant"). Each 2022 Warrant will entitle the holder thereof to purchase one Common Share at an exercise price of $1.00 for a period of five years following the closing of the Offering.

   Subsequent to March 31, 2022, the Company also closed the second and final tranche of its Offering of convertible debenture units, for aggregate proceeds of $438,000. The aggregate gross proceeds to the Company from the first and second tranche was approximately $1.28 million.

   The Debentures will bear interest at a rate of 12.0% per annum from the date of issue, payable on a semi-annual basis, such interest being payable: (i) in-kind in Common Shares based on the daily volume weighted average trading price for the 20 trading days preceding the date of interest payment; or (ii) in cash at the Company's option. The Debentures will mature five (5) years from the closing of the Offering (the "Maturity Date") and the principal amount of the Debentures will be repaid in cash only. The principal amounts of each Debenture will be convertible into Common Shares at the option of the holder at a conversion price equal to $1.00. If the holder elects to convert the Debentures, then the holder will also receive an amount equal to the interest that the holder would have received if the holder had held the Debentures until the Maturity Date (the "Effective Interest"), payable in: (i) units (the "Interest Units") based on the daily volume weighted average trading price for the 20 trading days preceding the date of such election; (ii) cash; or (iii) a combination of cash and Interest Units, at the Company's option.

   Each Interest Unit will consist of one Common Share and one Common Share purchase warrant (each, an "Interest Warrant"). Each Interest Warrant entitles the holder thereof to acquire one Common Share at an exercise price equal to the daily volume weighted average trading price for the 20 trading days preceding the date of the conversion election, at any time up to five (5) years following the date of such election.

   Each holder of Debentures may, at their option, elect to exchange the aggregate principal amount of such holder's Debentures for an equivalent aggregate principal amount of 15.0% non-convertible secured notes expiring on the Maturity Date (each, a "Secured Note") on a one for one basis at any time prior to the Maturity Date. Any accrued interest from the date of exchanging the Debentures into Secured Notes will be carried forward and be payable on the applicable interest payment date, together with the interest accruing from the Secured Notes beginning on the date of exchange.

ii. Subsequent to March 31, 2022, $98,000 principal amount of Debenture Units were converted into 98,000 Common Shares at a price of $1.00. In connection with the Debenture Units that were converted, 69,745 Interest Units were issued as part of the Effective Interest payment and make whole provision.