2022

sugarbud

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022

31546115v2

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 nine months ended September 30, 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 and nine months ended September 30, 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		September 30, 2022		December 31, 2021
Assets					
Current assets					
Accounts receivable	5		**108,915**		291,639
Prepaid expenses and deposits			**205,557**		234,896
Inventory	6		**1,519,500**		2,656,658
Biological assets	7		**996,952**		644,629
			2,830,924		3,827,822
Non-current assets					
Intangible asset			**2,418,628**		2,467,588
Non-current deposits			**115,000**		115,000
Property, plant and equipment	8		**10,190,206**		10,694,849
Right-of-use assets	9		**179,123**		407,757
Total Assets		**$**	**15,733,881**	$	17,513,016
Liabilities					
Current liabilities					
Overdraft	14	**$**	**824,871**	$	8,091
Accounts payable and accrued liabilities			**5,409,153**		3,172,455
Derivative liability	15		**311,803**		-
Current portion of lease obligations			**101,700**		156,837
Current portion of commercial mortgage loan	14		**6,803,860**		6,822,653
			13,451,387		10,160,036
Non-current liabilities					
Lease obligations			**207,178**		291,859
Convertible debentures	15		**696,907**		82,545
Total Liabilities		**$**	**14,355,472**	$	10,534,440
Shareholders' Equity					
Share capital	10		**42,985,855**		42,596,523
Contributed surplus	11		**8,652,205**		8,332,362
Deficit			**(50,259,651)**		(43,950,309)
Total Shareholders' Equity		**$**	**1,378,409**	$	6,978,576
Total Liabilities and Shareholders' Equity		**$**	**15,733,881**	$	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)

expressed in Canadian dollars unless otherwise noted

		Three Months ended		Nine Months ended	
	Note	**September 30, 2022**	September 30, 2021	**September 30, 2022**	September 30, 2021
Gross revenue		**$ 485,152**	$ 662,924	**$ 2,124,453**	$ 1,659,759
Excise taxes		**(46,189)**	(108,693)	**(420,973)**	(335,335)
Net revenue		**438,963**	554,231	**1,703,480**	1,324,424
Cost of goods sold		**249,260**	322,301	**1,022,685**	912,755
Gross profit before fair value adjustments		**189,703**	231,930	**680,795**	411,669
Change in fair value of biological assets	7	**(8,674)**	1,120,395	**1,213,966**	3,525,713
Change in fair value through inventory	6	**(3,318,555)**	(602,085)	**(3,631,888)**	(1,038,443)
Gross profit		**(3,137,526)**	750,240	**(1,737,127)**	2,898,939
Expenses					
General and administrative	16	**$ 818,799**	$ 1,279,088	**$ 3,126,534**	$ 3,809,285
Stock based compensation	12	**-**	49,766	**43,382**	263,734
Depreciation and amortization	8,9	**251,822**	282,454	**700,991**	633,040
Income (Loss) from operations		**(4,208,147)**	(861,068)	**(5,608,034)**	(1,807,120)
Finance costs	17	**130,506**	54,822	**745,853**	467,818
Litigation settlement		**-**	-	**-**	165,000
Loss (gain) on disposal of right-of-use assets	9	**-**	-	**(44,545)**	-
Loss before income tax		**(4,338,653)**	(915,890)	**(6,309,342)**	(2,439,938)
Income tax		**-**	-	**-**	-
Loss and comprehensive loss		**$ (4,338,653)**	$ (915,890)	**$ (6,309,342)**	$ (2,439,938)
Loss per share, basic and diluted	13	**$ (0.72)**	$ (0.17)	**$ (1.05)**	$ (0.46)

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	Prepaid share reserve	Contributed surplus	Deficit	Total
Balance at December 31, 2020		4,622,096	38,013,449	-	7,255,736	(35,246,115)	$ 10,023,070
Issuance of common shares	10	766,705	3,776,313	-	-	-	3,776,313
Convertible debenture conversion	10,15	187,019	805,897	-	-	-	805,897
Exercise of stock options	12	333	1,667	-	-	-	1,667
Exercise of warrants	11	6,000	30,250	-	-	-	30,250
Issuance of warrants	11			-	823,917		823,917
Stock-based compensation	12	-	-	-	263,734	-	263,734
Prepaid share reserve	10	-	-	230,035	-	-	230,035
Share issuance costs	10	-	(435,804)	-	(95,084)	-	(530,888)
Comprehensive loss		-	-	-	-	(2,439,938)	(2,439,938)
Balance at September 30, 2021		5,582,153	$ 42,191,772	$ 230,035	$ 8,248,303	$ (37,686,053)	$ 12,984,057

	Note	Number of common shares[1]	Share capital	Prepaid share reserve	Contributed surplus	Deficit	Total
Balance at December 31, 2021		5,699,793	$ 42,596,523	$ -	$ 8,332,362	$ (43,950,309)	**$ 6,978,576**
Shares issued for services	10	665,020	232,757	-	-	-	**232,757**
Issuance of convertible debentures	15	-	-	-	276,461	-	**276,461**
Exercise of warrants	11	10	100	-	-	-	**100**
Convertible debenture conversion	15	167,745	156,475	-	-	-	**156,475**
Stock-based compensation	12	-	-	-	43,382	-	**43,382**
Comprehensive loss		-	-	-	-	(6,309,342)	**(6,309,342)**
Balance at September 30, 2022		**6,532,568**	**$ 42,985,855**	**$ -**	**$ 8,652,205**	**$ (50,259,651)**	**$ 1,378,409**

[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

	Note	Nine months ended September 30, 2022	September 30, 2021
Cash used in operating activities:			
Loss and comprehensive loss for the period		**$ (6,309,342)**	$ (2,439,938)
Adjustments for non-cash items:			
Depreciation and amortization	8,9	**700,991**	633,040
Stock based compensation	12	**43,382**	263,734
Finance costs	17	**745,853**	467,818
Change in unrealized fair value of biological asset	7	**(1,213,966)**	(3,525,713)
Change in fair value through inventory	6	**3,631,888**	1,038,443
Gain on disposal of right-of-use assets	9	**44,545**	-
Change in non-cash working capital		**62,832**	(811,239)
Cash used in operating activities		**(2,293,817)**	(4,373,855)
Cash used in investing activities:			
Additions to property, plant and equipment	8	**(60,696)**	(426,139)
Proceeds from disposal of right-of-use assets	9	**41,194**	-
Cash used in investing activities		**(19,502)**	(426,139)
Cash provided by financing activities:			
Proceeds from authorized overdraft	14	**816,780**	-
Net proceeds from Commercial Mortgage Loan	14	**225,000**	1,224,489
Payment of Commercial Mortgage Loan	14	**(239,786)**	(224,995)
Convertible debentures issued	15	**1,286,000**	-
Net payment of convertible debenture interst reserve	16	**-**	(51,794)
Interest paid during the year	17	**(169,186)**	(266,116)
Convertible debenture issue costs	17	**426,218**	-
Repayment of lease obligations		**(31,807)**	(115,320)
Exercise of stock options		**-**	1,667
Prepaid share reserve		**-**	230,034
Exercise of warrants	11	**100**	30,250
Issuance of units, net of issuance costs	10	**-**	4,069,342
Cash provided by financing activities		**2,313,319**	4,897,557
Increase (decrease) in cash		**-**	97,563
Cash, beginning of period		**-**	21,274
Cash, end of period		**$ -**	$ 118,837

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 NEX Board of 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.

On September 29, 2022, the Company was transferred to the NEX board of the TSX Venture Exchange due to the Company no longer satisfying the TSXV's maintenance requirements for issuers.

Going Concern

These condensed consolidated interim financial statements for the three and nine months ended September 30, 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 nine months ended September 30, 2022, the Company incurred a loss of $6,309,342 and had cash outflows from operations of $2,293,817.

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.

During the period ended, Connect First served the Company with demand notices on its credit facilities, and the Company filed a notice of intention to make a proposal (the "NOI") under the Bankruptcy and Insolvency Act (Canada), as amended (the "BIA") for itself and its subsidiaries, which will provide for creditor protection through a stay of proceedings while the Company seeks to restructure its affairs. The effect of the NOI is an immediate stay of proceedings for 30 days, which may be extended by subsequent court order. Filing the NOI allows the Company to pursue available options to maximize the Company's value for stakeholders, while continuing operations and remaining in control of its business. While the Company is exploring strategic and financial alternatives to maximize stakeholder value in the proposed proceedings, the failure of the Company to achieve its restructuring goals through an approved proposal would result in the Company being deemed to have made an assignment into bankruptcy.

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 February 3, 2023.

2. Basis of Preparation (continued)

(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 September 30, 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 number 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 September 30, 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 December 31, 2021, 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.

4. Financial Instruments and Risk Management (continued)

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. .

(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 September 30, 2022 is as follows:

	2022	2023	2024	2025	2026	Thereafter	**Total**
Accounts payable and accrued liabilities	5,409,153	-	-	-	-	-	**5,409,153**
Lease obligations	65,920	124,206	103,209	90,189	-	-	**383,524**
Commercial mortgage loan	1,068,487	1,150,310	1,150,310	1,150,310	950,552	2,809,385	**8,279,353**
Convertible debentures[1]	16,560	1,259,440					**1,276,000**
Total	**6,560,120**	**2,533,956**	**1,253,519**	**1,240,499**	**950,552**	**2,809,385**	**15,348,030**

[1]Assumes the principal balance of the debentures outstanding as at September 30, 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 September 30, 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 September 30, 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.

5. Accounts Receivable

The following is a table with an aging analysis of the outstanding accounts receivable as at September 30, 2022:

Period Outstanding	**September 30, 2022**	**December 31, 2021**
< 30 days	$ 108,915	$ 220,273
31 to 60 days	-	71,366
61 to 90 days	-	-
Over 90 days	-	-
Total accounts receivable	**$ 108,915**	**$ 291,639**

expressed in Canadian dollars unless otherwise noted

6. Inventory

Inventory is comprised of:

	September 30, 2022		December 31, 2021	
Harvested cannabis	$	825,000	$	1,956,155
Cannabis work-in-progress		684,500		582,946
Raw materials		10,000		117,557
Total inventory	**$**	**1,519,500**	**$**	**2,656,658**

7. Biological Assets

Biological assets are comprised of:

	September 30, 2022		December 31, 2021	
Balance, beginning of period	$	644,629	$	923,384
Production costs capitalized		823,690		1,613,601
Change in fair value due to biological transformation		1,222,640		1,933,652
Transferred to inventory upon harvest		(1,694,007)		(3,826,008)
Balance, end of period	**$**	**996,952**	**$**	**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.

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		-		57,559		3,137		60,696
At September 30, 2022	**$**	**323,000**	**$**	**11,763,748**	**$**	**220,435**	**$**	**12,307,183**
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		-		(522,611)		(42,728)		(565,339)
At September 30, 2022	**$**	**-**	**$**	**(1,988,157)**	**$**	**(128,820)**	**$**	**(2,116,977)**
Net Book Value								
At December 31, 2021	**$**	**323,000**	**$**	**10,240,643**	**$**	**131,206**	**$**	**10,694,849**
At September 30, 2022	**$**	**323,000**	**$**	**9,775,591**	**$**	**91,615**	**$**	**10,190,206**

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 September 30, 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)	$	(219,791)	$	(388,368)
Depreciation		(9,090)		(140,475)		(149,565)
At September 30, 2022	$	(177,667)	$	(360,266)	$	(537,933)
Net Book Value						
At December 31, 2021	$	88,159	$	319,598	$	407,757
At September 30, 2022	$	-	$	179,123	$	179,123

During the nine months ended September 30, 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
Convertible debenture conversions	167,745		156,475
Shares issued for services	665,020		232,757
Balance at September 30, 2022	6,532,568	$	42,985,855

During the nine months ended September 30, 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.

During the nine months ended September 30, 2022, the Company entered into shares for services agreements with certain arm's length service providers, pursuant to which the Company issued a total of 665,020 Shares at a deemed price of $0.35 per share in satisfaction of amounts owing to such persons in the aggregate amount of $232,757.

expressed in Canadian dollars unless otherwise noted

11. Warrants

	Warrants		Weighted average exercise price
Balance at December 31, 2021	**358,960,943**	**$**	**7.81**
Exercise of warrants	**(1,000)**		**10.00**
Issuance of warrants on Debentures	**77,300,000**		**1.00**
Warrants issued - interest units	**6,974,500**		**-**
Balance at September 30, 2022	**443,234,443**	**$**	**6.50**

The weighted average remaining life of the Company's warrants as at September 30, 2022 are 1.68 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 nine months ended September 30, 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**	**$**	**9.70**
Forfeited during the period	(2,900,000)		7.30
Balance at September 30, 2022	**47,866,667**	**$**	**9.84**
Exercisable at September 30, 2022	31,888,333	$	9.64

The weighted average remaining life of the Company's stock options as at September 30, 2022 was 4.54 years.

During the three months ended September 30, 2022, stock-based compensation expense recognized was $nil (September 30, 2021 - $49,766). During the nine months ended September 30, 2022, stock-based compensation expense recognized was $43,382 (September 30, 2021 - $263,734).

13. Loss per Share

Three months ended		**September 30, 2022**		**September 30, 2021**
Loss per share, basic and diluted	$	(0.72)	$	(0.17)
Weighted average shares outstanding		6,000,691		5,344,965

Nine months ended		**September 30, 2022**		**September 30, 2021**
Loss per share, basic and diluted	$	(1.05)	$	(0.46)
Weighted average shares outstanding		6,000,691		5,344,965

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.

expressed in Canadian dollars unless otherwise noted

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.

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 September 30, 2022, the Company's authorized overdraft was overdrawn by $824,871 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 September 30, 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 nine months ended September 30, 2022, the Company received the remaining proceeds of $225,000 related to the extension to the existing commercial mortgage loan.

During the period ended, Connect First served the Company with demand notices on its credit facilities, and the Company filed a notice of intention to make a proposal (the "NOI") under the Bankruptcy and Insolvency Act (Canada), as amended (the "BIA") for itself and its subsidiaries, which will provide for creditor protection through a stay of proceedings while the Company seeks to restructure its affairs.

The effect of the NOI is an immediate stay of proceedings for 30 days, which may be extended by subsequent court order. Filing the NOI will allow the Company to pursue available options to maximize the Company's value for stakeholders, while continuing operations and remaining in control of its business. While the Company is exploring strategic and financial alternatives to maximize stakeholder value in the proposed proceedings, the failure of the Company to achieve its restructuring goals through an approved proposal would result in the Company being deemed to have made an assignment into bankruptcy.

Alvarez & Marsal Canada Inc. has been appointed as proposal monitor and trustee pursuant to the BIA (the "Proposal Trustee") to monitor the Company's operations and restructuring. Information and materials filed in connection with the NOI and CCAA proceedings can be found on the Proposal Monitor and Trustee's website at https://www.alvarezandmarsal.com/sugarbud.

	September 30, 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	816,780	8,091
Proceeds from letter of credit	-	40,000
Commercial mortgage loan repayment	(239,786)	(377,193)
Debt issuance costs	(23,381)	(51,205)
Accretion	19,374	12,974
Ending balance	**$ 7,628,731**	**$ 6,830,744**
Presented as:		
Overdraft	**824,871**	**8,091**
Current portion of commercial mortgage loan	**6,803,860**	**6,822,653**
Total	**$ 7,628,731**	**$ 6,830,744**

expressed in Canadian dollars unless otherwise noted

15. Convertible Debentures

	September 30, 2022	December 31, 2021
Beginning balance	**$ 82,545**	**$ 621,202**
Issuance of convertible debentures during period	697,736	-
Conversion of convertible debenture	(156,475)	(636,635)
Accretion of host contract	73,101	51,508
Change in fair value of conversion feature	-	46,470
Ending balance	**$ 696,907**	**$ 82,545**

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.

During the nine months ended September 30, 2022, the Company closed its marketed public offering (the "Offering") of convertible debenture units (each, a "Debenture Unit") for aggregate proceeds of $1,286, 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. 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.

16. General and Administrative Expenses

	Thee months ended		Nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Professional fees	$ 140,790	$ 38,222	$ 473,451	$ 312,372
Salaries, wages and benefits	199,902	804,320	$ 1,390,337	2,121,870
Consulting fees	144,905	130,445	$ 324,110	281,104
Office and general	114,598	2,293	$ 118,614	11,991
Sales & marketing	32,413	57,802	$ 101,888	246,528
Insurance	127,905	99,261	$ 311,797	311,763
Facility overhead and other	58,286	146,745	$ 406,337	523,657
Total general and administrative expenses	**$ 818,799**	**$ 1,279,088**	**$ 3,126,534**	**$ 3,809,285**

expressed in Canadian dollars unless otherwise noted

17. Finance Costs

	Thee months ended		Nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Cash finance costs (income)				
Interest on right of use leases	$ 11,114	$ 13,743	$ 34,263	$ 45,543
Interest on commercial mortgage loan	74,654	58,635	220,691	164,848
Interest on convertible debenture	-	-	-	55,725
Convertible debenture issuance costs	-	-	426,218	-
	85,768	72,378	681,172	266,116
Non-cash finance costs (income)				
Change in fair value of derivative liability	-	(26,876)	-	(36,695)
Accretion	6,458	2,729	19,374	8,187
Interest on convertible debenture	38,280	6,591	45,307	230,210
	$ 44,738	$ (17,556)	$ 64,681	$ 201,702
Total finance costs	**$ 130,506**	**$ 54,822**	**$ 745,853**	**$ 467,818**

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.

Nine months ended	September 30, 2022	September 30, 2021
Stock based compensation	$ 26,557	$ 175,574
Compensation earned by key management	342,917	204,356
Compensation earned by directors	160,000	468,750
Total	**$ 529,474**	**$ 848,680**

As at September 30, 2022, of the compensation earned by key management of $175,000 remains unpaid and all of the compensation earned by directors remains unpaid. Total unpaid compensation for key management amounts to $339,917 and total unpaid compensation for directors amounts to $471,189.

19. Subsequent Events

Alvarez & Marsal Canada Inc. has been appointed as proposal monitor and trustee pursuant to the BIA (the "Proposal Trustee") to monitor the Company's operations and restructuring. Information and materials filed in connection with the NOI and CCAA proceedings can be found on the Proposal Monitor and Trustee's website at https://www.alvarezandmarsal.com/sugarbud.