2022

sugarbud

Q3 2022 MANAGEMENT DISCUSSION & ANALYSIS

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This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Sugarbud Craft Growers Corp. ("Sugarbud" or the "Company") (NEX: SUGR, SUGR.WT, SUGR.DB, SUGR.WS and SUGR.WR) (OTCQB: SBUDF) is dated February 3, 2023. The MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements for the period ending September 30, 2022 and the audited consolidated financial statements for the year ended December 31, 2021, together with the notes thereto ("Financial Statements"). Sugarbud's Board of Directors reviewed and approved the September 30, 2022 Financial Statements and MD&A on February 3, 2023.

Additional information about Sugarbud, including the Company's annual information form for the year ended December 31, 2021, is available on SEDAR at www.sedar.com and on the Company's website at www.sugarbud.ca.

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Company uses certain non-IFRS measures in this MD&A. Refer to pages 9 to 11 for important information related to non-IFRS measures and forward-looking information.

SUGARBUD OPERATING STRUCTURE

STAVELY OPERATING FACILITY

Sugarbud owns and operates a single, fully-licensed 29,800 sq. ft cultivation and production facility (the "Facility") in Stavely, Alberta - which houses a total maximum flowering canopy of approximately 24,576 sq. ft across 6 cultivation rooms and a maximum total production capacity of between 9,400 – 11,059 kilograms of dried cannabis per year.

Each cultivation room is comprised of up to a maximum of four layers of stacked vertical cultivation space (1,024 sq. ft. per layer) and an estimated maximum annual production capacity of between 1,567 – 1,843 kilograms of premium cured craft cannabis flower per year, based on the following assumptions: a maximum of four layers per room; the equivalent of 1,024 plants per layer; an average yield of between 85 - 100 grams per plant; and a growing cycle of 10 – 11 weeks per harvest, resulting in an average of 4.5 harvests per year for each room.

Sugarbud currently has two active cultivation rooms in operation both across two layers of cultivation and has the capacity to produce approximately 827 – 973 kilograms of premium cured craft cannabis flower per year, based on the following assumptions: a maximum of two layers per room; the equivalent of 1,024 plants per layer; an average yield of between 85 - 100 grams per plant; and a growing cycle of 10 – 11 weeks per harvest, resulting in an average of 4.5 harvests per year for each room.

As each room within the Facility can be developed individually, this provides Sugarbud with tremendous flexibility and optionality. Future capacity expansion will continue to be phased and occur from time to time based upon market demand and available sources of capital.

The total budget for final fitting and equipping of each new cultivation room is approximately $1.5 million for a complete 4-layer operation. The bulk of the costs associated with scaling up each new room are associated with the installation of additional HVAC systems, lighting, irrigation, and growing racks. The payback period for each new room is less than one year (based on a total estimated production capacity of between 348,000 – 409,600g/harvest, an average, risk-adjusted, blended net selling price of $4.85/g and a risk adjusted gross margin of 25%).

SUGARBUD'S OPERATING STRUCTURE IS COMPRISED OF FOUR PRIMARY OPERATING DIVISIONS:

CANNABIS PROPAGATION AND CULTIVATION | Based at our Facility, Sugarbud's Cannabis Propagation and Cultivation division owns the outcomes for all cannabis-related research and development, process improvement, quality control, propagation, cultivation, and harvest activities.

CANNABIS PROCESSING AND PRODUCTION | Based at our Facility, Sugarbud's Cannabis Processing and Production division owns the outcomes for all cannabis-related post-harvest research and development, processing, quality control, production, and supply chain activities.

ACHIEVING OUR STRATEGIC INTENT

SUGARBUD WILL ACHIEVE ITS STRATEGIC INTENT BY FOCUSING ON THE FOLLOWING OPERATING PRINCIPLES:

PRODUCT LEADERSHIP AND INITIATIVE

- Playing to win - achieve/maintain the #1 or #2 position in identified product categories
- Consumer-driven products - developed through a deep and insightful understanding of consumers and their "use" environment (market/cannabis "IQ")
- A highly engaged and proactive "consumer first" service model

OPERATIONAL EXCELLENCE

- Leading quality and compliance processes
- Leading cultivation and post-harvest practices, processes, and outcomes
- Simplified, efficient and reliable cultivation, production, and supply chain

Q3 2022 HIGHLIGHTS

REVENUE DECLINE | Sugarbud continues to see strong consumer demand for the Company's products; however, revenue declined in Q3 2022. Gross revenue for the quarter was $485,834 compared to $662,924 in Q3 2021, representing a 21% decrease.

STRONG GROSS MARGINS | Despite persistent industry-wide pressure on price and investments in additional headcount at the Company's Stavely facility to support production and cultivation, gross margin before fair market value adjustments for Q3 2022 continued to strengthen and trend higher. Q3 2022 gross margin before fair value adjustments totaled $189,703, or 39% of net revenue versus $231,930, or 35% of net revenue in the same period in 2021.

LAUNCH OF HAND-BLENDED, INFUSED PRE-ROLLS | During the nine months ended September 30, 2022, the Company launched its first infused multi-pack pre-roll format – one of a number of Cannabis 2.0 products. Sugarbud's infused pre-rolls have a total THC of between 28-35% with a total terpene profile of between 2-4%.

LAUNCH OF 10 X 0.35G "BUDDIES" MULTI-PACK PRE-ROLL FORMAT TO ONTARIO | During the nine months ended September 30, 2022, the Company shipped the first orders of the Company's new 10 x 0.35g "Buddies" multi-pack pre-roll products to the OCS.

SHIPMENT OF FIRST >30% THC STRAIN | During the nine months ended September 30, 2022, the Company shipped its first >30% dry flower product, GMO Cookies, to the Ontario Cannabis Stores (the "OCS"). GMO Cookies has been well-received and reflects the Company's focus on ensuring it consistently produces cannabis products that delight the consumer with a high THC-content while maintaining a high terpene profile – a delicate balancing act that management believes sets Sugarbud's cultivation and post-harvest processing techniques apart.

YIELDS AND THC CONTENT | During the nine months ended September 30, 2022, the Company successfully completed 6 harvests resulting in a total of approximately 675,000 grams harvested. Sugarbud's cultivation and processing operations continue to deliver exceptional terpene content (over 2-3%) and total potency (THC 20-30%); a clear result of the Company's commitment to exceptional genetics, plant health and best practice cultivation and post-harvest processing techniques.

EXPANDED DISTRIBUTION AND REACH | On February 22, 2022, the Company entered into a supply agreement with Quebec-based licensed producer Médicibis, operators of Mendo Medical ("Mendo") to provide registered medical patients nationwide access to the Company's Craft Cannabis Collection via Mendo's online medical cannabis sales platform.

SHARE CONSOLIDATION | On February 15, 2022, the Company completed a one-for-one hundred (1:100) share consolidation (the "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.

CONVERTIBLE DEBENTURE | 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 issued 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 "Warrant"). Each Warrant will entitle the holder to purchase one Common Share at an exercise price of $1.00 for a period of five years following the closing of the Offering.

RESIGNATIONS | Stephen Martin resigned as a Director of the Company and Chris Moulson resigned as V.P. Finance and Chief Financial Officer of the Company, effective September 23, 2022. The Company's President and Chief Executive Officer, Daniel T. Wilson, was appointed Interim Chief Financial Officer, effective September 23, 2022. As a result of the resignations, Sugarbud had two remaining Directors and a consequence Sugarbud's trading halt was changed to a suspension for failure to meet the TSX Venture Exchange (the "TSX-V") requirement of having a minimum of three directors. In addition, and as a result of the First Order mentioned below, Sugarbud had not maintained the requirements for a TSX-V listed company and Sugarbud's listing was transferred to the NEX Board of the TSX-V in accordance with TSX-V policies and procedures.

All currency is expressed in Canadian dollars unless otherwise noted.

FINANCIAL AND OPERATING RESULTS

REVENUE

	Three Months ended		Nine Months ended	
	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

During the three months ended September 30, 2022, net revenue recognized amounted to $438,963 compared to net revenue of $554,231 during the same period of 2021, representing a 21% decrease.

During the nine months ended September 30, 2022, net revenue recognized amounted to $1,703,480 compared to net revenue of $1,324,424 during the same period of 2021, representing a 29% increase.

GROSS PROFIT MARGIN (BEFORE FAIR VALUE ADJUSTMENTS)

	Three Months ended		Nine Months ended	
	September 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Gross profit before fair value adjustments	**189,703**	231,930	**680,795**	411,669

During the three months ended September 30, 2022, the Company realized gross margin of $189,703 or 39% of net revenue compared to $231,930 or 35% of net revenue during the same period of 2021.

During the nine months ended September 30, 2022, the Company realized gross margin of $680,795 or 32% of net revenue compared to $411,669 or 25% of net revenue during the same period of 2021.

COST OF GOODS SOLD

	Three Months ended		Nine Months ended	
	September 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Cost of goods sold	**$ 249,260**	$ 322,301	**$ 1,022,685**	$ 912,755

During the three months ended September 30, 2022, the Company incurred cost of goods sold of $249,260 compared to $322,301 during the same period of 2021.

During the nine months ended September 30, 2022, the Company incurred cost of goods sold of $1,022685 compared to $912,755 during the same period of 2021. The change over the comparative periods is directly related to the change in revenue.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three Months ended		Nine Months ended	
	September 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
General and administrative	**$ 818,799**	$ 1,279,088	**$ 3,126,534**	$ 3,809,285

During the three months ended September 30, 2022, general and administrative expenses were $818,799 compared to $1,279,088 during the same period of 2021.

During the nine months ended September 30, 2022, general and administrative expenses were $3,126,534 compared to $3,809,285 during the same period of 2021.

STOCK-BASED COMPENSATION

	Three Months ended		Nine Months ended	
	September 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Stock based compensation	**$ -**	$ 49,766	**$ 43,382**	$ 263,734

Stock-based compensation expense recognized during the three months ended September 30, 2022, was $nil compared to $49,756 during the same period of 2021. The decrease in stock-based compensation is primarily due to no options grants in this period versus prior-period stock option grants that incurred a higher expense.

Stock-based compensation expense recognized during the nine months ended September 30, 2022, was $43,382 compared to $263,734 during the same period of 2021. The decrease in stock-based compensation is primarily due to prior-period stock option grants that incurred a higher expense earlier in the vesting period and met their vesting requirements in early 2021.

All currency is expressed in Canadian dollars unless otherwise noted.

EBITDA[1]

	Three Months ended		Nine Months ended	
	September 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Loss and comprehensive loss	**$ (4,338,653)**	$ (915,890)	**$ (6,309,342)**	$ (2,439,938)
Depreciation and amortization	**251,822**	282,454	**700,991**	633,040
Finance costs	**130,506**	54,822	**745,853**	467,818
EBITDA	**(3,956,325)**	$ (578,614)	**(4,862,498)**	$ (1,339,080)

[1] Earnings before interest, tax, depreciation, and amortization (EBITDA) does not have a standardized meaning prescribed by IFRS. See "Non-IFRS Measures" below.

FINANCIAL AND OPERATING RESULTS

	Three Months ended		Nine Months ended	
	September 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Cash used in operating activities	**$ (343,820)**	$ (639,415)	**$ (2,293,817)**	$ (4,373,855)
Loss and comprehensive loss	**(4,338,653)**	(915,890)	**(6,309,342)**	(2,439,938)
Loss per share[1] – basic and diluted	**(0.72)**	(0.17)	**(1.05)**	(0.46)
Capital expenditures	**9,317**	60,696	**9,317**	60,696
EBITDA[3]	**(3,956,325)**	(578,614)	**(4,862,498)**	(1,339,080)

[1] Number of common shares have been restated on a retroactive basis to all periods to reflect the Share Consolidation effective on February 15, 2022. [3]Earnings before interest, tax, depreciation, and amortization (EBITDA) does not have a standardized meaning prescribed by IFRS. See "Non-IFRS Measures" below).

During the nine months ended September 30, 2022, cash used in operating activities was $2,293,817 and comprehensive loss was $6,309,342. Expenditures incurred primarily relate to the Company's commercial harvesting activities as well as associated sales and marketing costs, as well as a write-down in the value of inventory and biological assets. These expenditures also include general and administrative expenses primarily made up of salaries and wages and professional fees.

As at September 30, 2022, and the date of this MD&A, the Company had a total of 6,532,568 Common Shares, 47,866,667 stock options, and 443,234,443 warrants outstanding.

WORKING CAPITAL[1]

	September 30, 2022	December 31, 2021
Cash	**$ -**	$ -
Accounts receivable	**108,915**	291,639
Prepaid expenses and deposits	**205,557**	234,896
Inventory	**1,519,500**	2,656,658
Biological assets	**996,952**	644,629
Overdraft	**(824,871)**	(8,091)
Accounts payable and accrued liabilities	**(5,409,153)**	(3,172,455)
Derivative liability	**(311,803)**	-
Current portion of lease obligations	**(101,700)**	(156,837)
Current portion of commercial mortgage loan	**(6,803,860)**	(6,822,653)
Working Capital Deficit	**$ (10,620,463)**	$ (6,332,214)

[1] Working capital does not have a standardized meaning prescribed by IFRS. See "Non-IFRS Measures" below.

As at September 30, 2022, the Company had a working capital deficit of $(10,620,463), compared to working capital deficit of $(6,332,214) as at December 31, 2021; representing an increase deficient of $(4,288,249).

CANNABIS INVENTORY

	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**

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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 Holdings Corp 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 $374,735 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 period ended September 30, 2022, the Company received the remaining proceeds of $225,000 related to the extension to the existing commercial mortgage loan.

Subsequent to the period ended, Connect First served the Company with demand notices on its credit facilities, and September 26, 2022 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.

More information relating to the NOI can be found under the heading "Subsequent Events."

	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**

CONVERTIBLE DEBENTURE

Convertible Debenture Issuance | 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 ash and Interest Units, at the Company's option.

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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.

Convertible Debenture Conversion | During the nine months ended September 30, 2022, $156,475 principal amount of Debenture Units were converted into 167,745 Common Shares. In connection with the Debenture Units that were converted, 11,270 Interest Units were issued as part of the Effective Interest payment and make whole provision.

CAPITAL EXPENDITURES

Nine months ended	September 30, 2022	December 31, 2022
Facility	**$ 57,559**	$ 433,583
Office equipment and other	**3,137**	16,874
Total	**$ 60,696**	$ 450,457

CONTRACTUAL OBLIGATIONS

The following represents a maturity analysis of the Company undiscounted contractual obligations as at September 30, 2022:

	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.

LIQUIDITY AND CAPITAL RESOURCES

WORKING CAPITAL

As at September 30, 2022, the Company had a working capital deficit (see "Non-IFRS Measures") of $(10,620,463) compared to a working capital deficit of $(6,332,214) as at December 31, 2021 as a result of the restatement of the Connect First commercial mortgage loan to current. Funds expended during the quarter primarily relate to the Company's commercial harvest activities as well as associated sales and marketing costs.

GOING CONCERN ASSUMPTION

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 above loss and the following circumstances lend substantial doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern:

- 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 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. More information relating to the NOI can be found under the heading "Subsequent Events."

- 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.

As a result, these events, combined with the accumulated losses to date, indicate the existence of a material uncertainty that may result in substantial 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. Such adjustments could be material.

SUBSEQUENT EVENTS

Sugarbud's Filing for Protection Under the Companies' Creditors Arrangement Act ("CCAA")

Subsequent to 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 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 allowed 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. The decision to seek creditor protection was taken after careful consideration of available alternatives, the Company's cash position, forecasted revenue and expenses, scheduled debt payments and demands for payment and notices of intention to enforce security received from the Company's lender on September 22, 2022.

Alvarez & Marsal Canada Inc. ("A&M") has been appointed as proposal monitor and trustee pursuant to the BIA 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.

The Company obtained an order issued on September 29, 2022 by the Court of King's Bench of Alberta (the "First Order"), pursuant to which A&M, in its capacity as proposal trustee of Sugarbud and its subsidiaries, was authorized and directed to, among other things, proceed with implementing a sale and investment solicitation process (the "SISP") in respect of the Company's business. The SISP was intended to solicit interest in, and opportunities for, a sale of, or investment in, all or part of the Companies' assets and business operations. The First Order also approved interim financing by Sugarbud's interim lender in an amount up to $2.0 million. Copies of the First Order and SISP can be found on A&M's website.

The SISP was a two-phased process. Interested parties wishing to submit a bid were required to deliver a non-binding letter of intent no later than 5:00 p.m. (Calgary time) on November 4, 2022. During Phase 2 of the SISP, the deadline for submission of final and binding proposals was no later than 5:00 p.m. (Calgary time) on December 9, 2022.

The Company obtained a subsequent order granted by the Court of King's Bench of Alberta on October 18, 2022 (the "Second Order"), to continue the Company's NOI proceedings under the CCAA, with A&M transitioning from its role as proposal trustee to the role of monitor under the CCAA. The interim financing obtained by Sugarbud under the NOI was also continued under the CCAA.

A&M was working with two parties who submitted a valid non-binding letters of intent and progressed into Phase II of the SISP. Notwithstanding the efforts made by the parties in negotiating the form and type of potential transaction, by the Phase II bid deadline there was no prospective transaction that was deemed acceptable by Connect First. In the absence of an acceptable transaction, Connect First has requested that the Company, with the assistance of A&M, continue to review strategies that would allow for the Company to maximize realizations from its property.

There is no certainty to the outcome of the SISP. Accordingly, it is unclear whether or not there will be any value for holders of Sugarbud's shares at the conclusion of the SISP.

The initial stay of proceedings under the CCAA has been extended to March 24, 2023 by an order granted by the Court of King's Bench of Alberta on January 17, 2023.

Subsequent events relating to other matters

December 6, 2022 the Alberta Securities Commission issued a cease trade order against the Company as a result of the Company not filing its interim financial statements, management's discussion and analysis and related certifications for the three month period ended September 30, 2022 by the respective deadlines.

On January 11, 2023, Joseph Dietrich resigned as a Director of the Company.

APPLICABLE REGULATIONS

In October 2018, the *Cannabis Act* (Canada), together with its accompanying regulations, came into force, legalizing the sale and use of cannabis for adult, recreational use in Canada. The Cannabis Act and Cannabis Regulations, among other things, establish the rules for the legal cultivation, processing, research, testing, distribution, sale, importation and exportation of cannabis in Canada, including the various classes of licenses that can be granted, and the quality standards for cannabis products. Pursuant to the regulatory framework, each province and territory in Canada is permitted to adopt its own laws governing the distribution, sale and consumption of cannabis products and accessories within the province or territory. For further information regarding the regulatory environment of cannabis in Canada, refer to the annual information form for the year ended December 31, 2021.

ADDITIONAL INFORMATION

NON-IFRS MEASURES | This MD&A provides various specified financial measures that do not have a standardized meaning prescribed by IFRS, including non-IFRS financial measures, non-IFRS ratios, capital management measures and specified financial measures. These non-IFRS financial measures may not be comparable to similar measures presented by other issuers. The following are non-IFRS measures contained in this MD&A:

"Working capital" (capital management measure) is the total of cash, accounts receivable, prepaids and deposits, inventory, biological assets, less accounts payable and accrued liabilities, current portion of commercial mortgage loan, and current portion of lease obligations. The calculation of the Company's working capital can be seen on page 9 under the table titled "Working Capital". Management believes that in addition to net income (loss), working capital is a useful supplemental measure that demonstrates the Company's overall debt position and assess the Company's overall leverage position necessary to repay debt or fund future capital investment.

"EBITDA" (non-GAAP financial measure) means earnings before interest, taxes, depreciation and amortization. EBITDA is not a recognized measure under IFRS. The Company's calculation of the Company's EBITDA can be seen on page 9 under the table titled "EBITDA".

Thee above benchmarks do not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. Sugarbud's methods of calculating these measures may differ from other companies and accordingly, may not be comparable to measures used by other companies. Management uses certain industry benchmarks, such as working capital, EBITDA, and normalized revenue to analyze financial and operating performance. These metrics are useful to investors and research securities analysts in evaluating operating performance.

READER ADVISORY REGARDING FORWARD LOOKING INFORMATION | Certain statements contained within this MD&A constitute forward-looking statements within the meaning of applicable Canadian securities legislation. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue", "budget, "outlook", "forecast" and similar expressions. The Company believes that the expectations reflected in such forward-looking statements are reasonable, but no assurance can be given that such expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

Without limitation, this MD&A contains forward-looking statements pertaining to:

- The SISP and management's belief that the SISP is intended to solicit interest in, and opportunities for, a sale of, or investment in, all or part of the Companies' assets and business operations
- the NOI proceedings
- the intentions of management and the Company;
- the Company's ability to continue as a going concern in the future;
- the Company's expected revenue and EBITDA;
- the Company's projections regarding new and replenishment order in Q3 2022, and on a go-forward basis;
- the Company's expectations of expanding its product offerings and reaching more consumers in key markets;
- expectations as to future growth and operations of the Company, including the scale-up of the Facility and costs thereof;
- expected cultivation capacity, yield and frequency at the Facility;
- construction of additional flower rooms and the scale thereof;
- harvest consistency;
- product quality;
- cultivation equipment and technologies, including vertical growing;
- cost of construction and sources and availability of funds;
- expectations as to future cannabis production and sales by the Company, including selling its products in ten provinces and territories and expanding to other provinces;
- expectations as to the Company's inventory levels, and utilization thereof, including of Cannabis 2.0 inventory and other products;
- expectations as to the size and value of the medical cannabis and recreational cannabis markets in Canada;
- the Company's anticipated financial performance;
- the Company's future development and growth prospects;
- the Company's expected operating costs, general and administrative costs, costs of services and other costs and expenses;
- the Company's ability to be profitable and generate positive cash flow from operations in 2022 and on a go-forward basis;
- the Company's ability to meet current and future obligations;
- future equipment financings;
- the Company's ability to obtain equipment, services and supplies in a timely manner;
- the Company's supply agreements and partnerships, including the Québec Supply Agreement;
- the Company's expectations to establish a direct Sugarbud branded presence in Québec;
- the expected date for the launch of the Company's Cannabis 2.0 products, including under the Company's new Cannabis 2.0 License;
- the Company's commercial mortgage loan, term loan, letter of credit, and the use of proceeds thereof;
- future expanded product offerings, including solventless extraction products, full-spectrum vape cartridges, edibles, gummies, and rosins, and the timing thereof;
- total shareholder return; and
- future acquisitions.

Forward-looking statements and other information contained herein concerning the cannabis industry and the Company's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as from market research and industry analysis and on assumptions based on data and knowledge of these industries which the Company believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While the Company is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors. With respect to the forward-looking statements contained in this MD&A, Sugarbud has made assumptions regarding, among other things:

- the Company's ability to continue as a going concern
- the ability of the SISP solicit interest in, and opportunities for, a sale of, or investment in, all or part of the Companies' assets and business operations
- the global public health crises in respect of the outbreak of a novel strain of coronavirus ("COVID-19") and the spread of new variant strains of the virus, including volatility and disruptions in global supply chains and financial markets, declining trade and market sentiment and reduced mobility of people, domestic and global vaccination rates, and the ability of business to resume regular operations;
- the impact of increasing competition;
- availability of skilled labour, services and equipment;
- timing and amount of capital expenditures;
- the use of proceeds from completed and proposed financings;
- product quality;
- the legislative and regulatory environments of the jurisdictions where the Company carries on business, has operations or plans to have operations and the continuation of the current tax and regulatory regime;
- availability of cannabis products from licensed producers and the distribution thereof by governmental entities;
- the ability of the Company to enter into contracts with target companies;
- the current relationships with suppliers, service providers and other third parties will be maintained;
- the ability of the Company to obtain qualified staff and services in a timely and cost-efficient manner;
- conditions in general economic and financial markets; and
- the Company's ability to obtain additional financing on satisfactory terms.

Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated or implied by such forward-looking statements due to a number of factors and risks. These include:

- the Company's ability to continue as a going concern;
- the results of the SISP;
- the oversupply of product in the cannabis market leading to cost pressures;
- the material uncertainties and risks described under the headings "Non-IFRS Measures", "Critical Accounting Estimates" and "Risk Factors";
- the material assumptions and observations described under the headings "Our Strategic Focus", "Accomplishing Our Mission and Corporate Objectives", "Sugarbud Operating Structure", "Achieving Our Strategic Intent", "Q1 2022 Highlights", "Financing Activities", "Liquidity and Capital Resources", "Financial and Operating Results", and "Applicable Regulations";
- failure to realize the anticipated benefits of acquisitions, investments and dispositions;
- success of the operations of the Company;
- the ability of management to continue to execute its business plan, including its cannabis-focused investment strategy;
- legislative and regulatory environments of the jurisdictions where the Company carries on business or has operations;
- the effect consumer perception of the medical-use and adult-use of cannabis will have on the market price of cannabis-related products;
- impact of competition and the competitive response to the Company's business strategy;
- the risks of the cannabis industry, such as regulatory risks and increasing competition;
- the Company's ability to maintain its credit facilities in good standing;
- actions taken by governmental authorities, including increases in taxes and changes in government regulations and incentive programs;
- risks inherent in marketing operations, including credit risk;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- inflation and its impact on business costs and expenses;
- timing and amount of capital and other expenditures; and
- conditions in financial markets and the economy generally, including the global public health crises in respect of the outbreak of COVID-19 and the spread of new variant strains of the virus.

Readers are cautioned that the foregoing list of risk factors is not exhaustive. The risk factors above should be considered in the context of current economic conditions, the attitude of lenders and investors towards corporations in the cannabis industry, potential changes to royalty and taxation regimes and to environmental and other government regulations, the condition of financial markets generally, as well as the stability of joint venture and other business partners, all of which are outside the control of the Company. Also, to be considered are increased levels of political uncertainty and possible changes to existing international trading agreements and relationships. Additional information on these and other factors that could affect the business, operations or financial results of Sugarbud are included in reports on file with applicable securities regulatory authorities, including, but not limited to, Sugarbud's annual information form for the year ended December 31, 2021, which may be accessed on Sugarbud's SEDAR profile at www.sedar.com or on the Company's website at www.sugarbud.ca.

The forward-looking statements contained in this MD&A are made as of the date hereof and Sugarbud undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

This MD&A contains future-oriented financial information and financial outlook information (collectively, "FOFI") about Sugarbud's future financings, operations, future cannabis production capacity, revenue, profitability, balance sheet, payback period, price per gram, working capital, EBITDA, cash flow, expenses, profit and components thereof, all of which are subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraphs. FOFI contained in this MD&A was approved by management as of the date of this MD&A and was provided for the purpose of providing further information about Sugarbud's anticipated future business operations. Sugarbud disclaims any intention or obligation to update or revise any FOFI contained in this MD&A, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this MD&A should not be used for purposes other than for which it is disclosed herein.

For purposes of certain Canadian securities regulations, Sugarbud is a venture issuer. As such, it is exempt from certain of the requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. The Chief Executive Officer and Chief Financial Officer have reviewed the annual information form, annual consolidated financial statements and annual MD&A, for the quarter ended September 30, 2022. Based on their knowledge and exercise of reasonable diligence, they have concluded that these documents fairly present in all material respects the financial condition, results of operations and cash flows of the Company for the periods presented.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. (See Risk Factors).

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if revision affects current and future periods.

Significant judgments, estimates, and assumptions that have the most significant impact on the amounts recognized in the Financial Statements are consistent with those applied in the annual consolidated financial statements.

RISK FACTORS

Many factors could cause the Company's results of operations, performance and financial condition to differ materially from those expressed or implied by the forward-looking statements and forward-looking information contained in this MD&A, including the factors listed above under the heading "Reader Advisory Regarding Forward Looking Information", which are discussed in greater detail under the heading "Risk Factors" in the Company's most recent annual information form filed with securities regulators and available on www.sedar.com, which risk factors are incorporated by reference into this document and should be reviewed in detail by all readers. In addition, the Company highlights the following risk factors:

Going Concern Uncertainty

These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liability in the ordinary course of business. The circumstances of the Company lend substantial doubt as to the accuracy of this assumption. The ability of the Company to continue as a going concern, depends on the Company maintaining its Health Canada Cultivation and Sales 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. As noted above, during the period ended, Connect First served the Company with demand notices on its credit facilities, and the Company filed a NOI under the BIA (see Subsequent Events Disclosure). 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. Such adjustments would be material.

Pandemic related impacts including inflation and labour shortages

Ongoing Impact of COVID-19 - The development and operation of the Company's business is dependent on labour inputs which could be adversely disrupted by the ongoing impact of COVID-19 and the spread of new variant strains of the virus. While it is difficult to predict the impact of the coronavirus pandemic on the Company's business, measures taken by the Canadian and Alberta governments and voluntary measures undertaken by the Company with a view to the safety of the Company's employees, may adversely impact the Company's business, for instance by impeding the labour required to cultivate, process, market and distribute the Company's products and disrupting the Company's critical supply chains. In addition, while cannabis retail has been declared an essential service in many provinces, sales volumes of cannabis may be adversely impacted by consumer "social distancing" behaviors. All Company office staff had transitioned to working remotely from home offices, with business continuing to be conducted by telephonic and electronic means. The Company reopened its head office on a voluntary and limited basis for its employees. The Company's Facility has implemented precautionary measures to ensure the safety of the staff and product, including limiting visits to the site to essential personnel only, ensuring proper protocols around sanitation, mask usage and physical distancing, and placing potentially exposed employees in self-quarantine for the appropriate period. These measures and similar measures taken by other employers may adversely impact the Company's ability to successfully market its new key product lines, for instance by precluding in-store visits and budtender engagement programs. In the short term, the Company is seeking to mitigate these impacts through technology-mediated engagement with retailers. The Company continues to dynamically monitor developments in order to adapt and respond in order to protect the health and safety of the Company's employees and the best interests of the Company and is in the process of developing return to work protocols for the anticipated easing of provincial pandemic restrictions over the coming months.

Cash Flow Risks and Future Sales Uncertainty

Assumptions related to cash flows and future sales of the Company's product lines - The Company expects to be required to fund negative Canadian operating cash flows prior to achieving positive operating cash flows and expects that the Company's financial resources and expected revenues, lease financing utilizing its existing equipment, equipment sale and leaseback financing, other financing alternatives, including debt financing or further additional amounts under the commercial mortgage loan and other Connect First facilities, will be sufficient to pay its obligations and fund its operations for the coming 12 months. Achieving positive operating cash flows and funding operations for the coming 12 months is reliant on revenues and working capital requirements being in line with expectations, which is in turn reliant on, among other things, future sales of the Company's product lines over the coming 12 months. The Company's expectations of positive Canadian operating cash flows and of achieving sufficient revenues to fund, when taken together with its other financial resources, its operations over the coming 12 months is based on a variety of assumptions relating to production and production capacity, growth in the number of product offerings and store locations in which the Company's products are sold, growth in total sales, consumer demand for the Company's products, market pricing of cannabis products, cost of sales, sales and marketing expenses, the pace of opening of, and increase in, the total number of recreational cannabis retail stores across Canada, and the total size of the Canadian recreational and medical cannabis markets over the coming 12 months. Actual results may vary materially from the Company's expectations if any of the Company's assumptions are inaccurate. Accordingly, readers should not place undue reliance on forward-looking statements, including the Company's expectations relating to future Canadian operating cash flows and sales of its products. The Company does not undertake to update or revise any forward-looking statements, except as, and to the extent required by, applicable securities laws in Canada. See "Reader Advisory Regarding Forward Looking Information". Actual results may also be impacted by all of the risk factors in this MD&A and in the Company's most recently filed annual information form.

NOTE: In this report all currency values are in Canadian dollars (unless otherwise noted). Figures, ratios and percentages in this MD&A may not add due to rounding.

OFFICERS AND DIRECTORS

Daniel T. Wilson (1,2,3)
Chairman, President and Chief Executive Officer/Director
Interim Chief Financial Officer
Calgary, Alberta

[1]Member of the Audit Committee
[2]Member of the Compensation Committee
[3]Member of the Corporate Governance and Compliance Committees

CORPORATE INFORMATION

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Stock Listing
NEX Board operated by the TSX Venture Exchange
Trading Symbols: SUGR, SUGR.DB, SUGR.WR, SUGR.WS, SUGR.WT

OTCQB Venture Market
Trading Symbol: SBUDF