2019 ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Independent Auditor's Report

To the Shareholders of Sugarbud Craft Growers Corp.:

Opinion

We have audited the consolidated financial statements of Sugarbud Craft Growers Corp. and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that as at December 31, 2019, the Company had cash available of $1,077,741 and a working capital deficit of $2,060,164. The Company incurred a comprehensive loss of $7,060,357 and cash used in operating activities of $4,133,125 during the year ended December 31, 2019. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Scott Laluk.

MNP LLP

Calgary, Alberta

May 21, 2020

Chartered Professional Accountants

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION,
expressed in Canadian dollars unless otherwise noted

	Note	December 31, 2019	December 31, 2018
Assets			
Current assets			
Cash		$ **1,077,741**	$ 3,821,548
Term deposit		**14,000**	100,000
Accounts receivable	7	**81,744**	2,317,242
Prepaid expenses, deposits and other		**182,840**	407,797
Biological assets	9	**70,072**	-
		1,426,397	6,646,587
Retail assets held for sale	8	**866,514**	-
Current assets		**2,292,911**	6,646,587
Non-current assets			
Intangible asset	10	**2,598,148**	2,611,204
Investment	13	**16,714**	937,599
Non-current prepaid expenses and deposits		**280,685**	-
Property, plant and equipment	11	**10,579,066**	7,221,380
Right of use asset	20	**729,901**	-
Total Assets		$ **16,497,425**	$ 17,416,770
Liabilities			
Current liabilities			
Accounts payable		$ **1,640,159**	$ 2,154,245
Current portion of lease obligations	20	**142,845**	-
Credit Facility	21	**1,972,050**	-
		3,755,054	2,154,245
Retail lease liabilities held for sale	8	**598,021**	-
Current liabilities		**4,353,075**	2,154,245
Non-Current liabilities			
Lease obligations	20	**591,691**	-
Total Liabilities		**4,944,766**	2,154,245
Shareholders' equity			
Share capital	14	**35,621,339**	33,487,057
Contributed surplus		**6,211,492**	4,995,283
Deficit		**(30,280,172)**	(23,219,815)
		11,552,659	15,262,525
Total Liabilities and Shareholders' Equity		$ **16,497,425**	$ 17,416,770

Nature of operations and going concern assumption (Note 1)

Commitments (Note 24)

Subsequent events (Note 25)

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

SIGNED ON BEHALF OF THE BOARD

"*Dan Wilson*"
Director

"*William Macdonald*"
Director

	Note	Year ended December 31, 2019	Year ended December 31, 2018
Continuing operations			
Unrealized fair value loss on growth of biological asset	9	**38,469**	-
Expenses			
General and administrative	23	**$ 5,564,914**	2,350,844
Stock based compensation	16	**1,057,732**	3,716,337
Interest and finance costs		**229,830**	26,781
Depreciation and amortization	10,11	**217,536**	-
Depreciation on right-of-use assets	20	**104,714**	-
Impairment on reclassification of retail assets held for sale	8	**118,411**	-
Net (gain) loss on investment and other	13	**(271,249)**	99,133
Total expenses		**7,021,888**	6,193,095
Loss and comprehensive loss from continued operations		**(7,060,357)**	(6,193,095)
Loss and comprehensive loss from discontinued operations	12	**-**	(4,784,733)
Total loss and comprehensive loss		**(7,060,357)**	(10,977,828)
Loss and comprehensive loss per share from continuing operations, basic and diluted	18	**$ (0.02)**	$ (0.03)

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

	Number of common shares		Share capital		Contributed surplus		Deficit		Total
Balance at December 31, 2017	88,950,484	$	14,940,681	$	1,474,236	$	(12,241,987)	$	4,172,930
Common shares issued	255,851,947		18,198,075		-		-		18,198,075
Exercise of warrants	4,710,950		318,095		-		-		318,095
Exercise of stock options	5,950,000		492,790		(195,290)		-		297,500
Share issuance costs	-		(462,584)		-		-		(462,584)
Stock-based compensation	-		-		3,716,337		-		3,716,337
Comprehensive loss for the year	-		-		-		(10,977,828)		(10,977,828)
Balance at December 31, 2018	355,463,381	$	33,487,057	$	4,995,283	$	(23,219,815)	$	15,262,525

	Number of common shares		Share capital		Contributed surplus		Deficit		Total
Balance at December 31, 2018	355,463,381	$	33,487,057	$	4,995,283	$	(23,219,815)	$	15,262,525
Common shares issued (Note 14)	18,500,000		925,000		-		-		925,000
Exercise of warrants (Note 15)	3,399,743		339,974		-		-		339,974
Exercise of stock options (Note 16)	33,333		3,625		-		-		3,625
Share issuance costs	-		(34,781)		-		-		(34,781)
Warrant reserve (Note 21)	-		-		158,477		-		158,477
Stock-based compensation (Note 16)	-		-		1,057,732		-		1,057,732
Loss and comprehensive loss for the year	-		-		-		(7,060,357)		(7,060,357)
Common shares to be issued (Note 14)	16,372,075		900,464		-		-		900,464
Balance at December 31, 2019	**393,768,532**	**$**	**35,621,339**	**$**	**6,211,492**	**$**	**(30,280,172)**	**$**	**11,552,659**

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

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Year ended	Note	December 31, 2019	December 31, 2018
Cash used in operating activities:			
Loss and comprehensive loss from continuing operations for the year		**$ (7,060,357)**	$ (6,193,095)
Adjustments for non-cash items:			
Net gain on investment	13	**(383,302)**	(51,891)
Depreciation	10,11,20	**322,249**	-
Stock based compensation	16	**1,057,732**	3,716,337
Accretion expense	21	**90,527**	-
Shares for services		**-**	336,980
Change in unrealized fair value of biological asset	9	**38,469**	-
Impairment on reclassification of retail assets held for sale and other		**242,762**	-
Term deposit		**86,000**	(100,000)
Change in non-cash working capital	19	**1,472,795**	(801,194)
Cash used in operating activities – continuing operations		**(4,133,125)**	(3,092,863)
Cash provided by operating activities – discontinued operations		**-**	283,370
Cash used in operating activities		**(4,133,125)**	(2,809,493)
Cash used in investing activities:			
Additions to property, plant and equipment	11	**(4,346,529)**	(6,912,354)
Proceeds from investment	13	**1,304,187**	239,292
Investment in Inner Spirit	13	**-**	(1,125,000)
Grunewahl Organics Inc. ("Grunewahl") asset acquisition	10	**-**	(490,000)
Cash used in investing activities – continuing operations		**(3,042,342)**	(8,288,062)
Cash used in investing activities – discontinued operations		**-**	1,621,600
Cash used in investing activities		**(3,042,342)**	(6,666,462)
Cash provided by financing activities:			
Repayment of bank debt		**-**	(2,272,399)
Proceeds from short term loan	21	**2,000,000**	-
Issuance of common shares, net of issuance costs	14	**1,790,683**	15,895,506
Issuance of warrants and stock options	14	**343,599**	-
Sale and lease buyback	20	**419,482**	-
Repayment of lease obligations	20	**(122,104)**	-
Repayment of shareholder loan		**-**	(249,750)
Acquisition of short-term liabilities and working capital		**-**	(75,854)
Cash provided by financing activities – continuing operations		**4,431,660**	13,297,503
Cash provided by financing activities		**4,431,660**	13,297,503
(Decrease) increase in cash		**(2,743,807)**	3,821,548
Cash, beginning of year		**3,821,548**	-
Cash, end of year		**$ 1,077,741**	$ 3,821,548

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

1. Nature of operations and going concern assumption

Sugarbud Craft Growers Corp. ("Sugarbud" or the "Company") is a federally licensed, publicly traded cannabis company. Sugarbud is incorporated in Alberta and listed on the TSX Venture Exchange ("TSXV") under the symbols "SUGR" (common shares), "SUGR.WT" (common share purchase warrants) and "SUGR.RT" (rights offering). The Company operates primarily in Alberta and its head office is located at Suite #620, 634 6th Avenue SW, Calgary, Alberta T2P 0S4. The Company became a reporting issuer in April 2004 and was previously an oil and natural gas company.

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

Going concern assumption

These consolidated financial statements (the "financial statements") for the years ended December 31, 2019 and 2018 have been prepared on the going concern basis, which assumes that the Company will continue to operate and will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

As at December 31, 2019, the Company had cash available of $1,077,741 and a working capital deficit of $2,060,164. The Company recorded a comprehensive loss of $7,060,357 and negative cash flows from operations of $4,133,125. The matters and conditions noted indicate the existence of a material uncertainty that may cast significant doubt about the Company being able to continue as a going concern.

The ability to continue as a going concern is dependent on obtaining continued financial support, either through equity or debt financings, and executing the Company's expansion plans.

The Company successfully completed both a private placement and a rights offering during the year ended December 31, 2019 (note 13). Subsequent to December 31, 2019, the Company has launched a public offering of a convertible debenture to raise up to $4 million ($4.6 million if the over-subscription option is exercised) and has executed a commitment letter with a conventional senior lender in respect of a $5 million credit facility that the Company anticipates closing before the end of Q2 2020.

The financial statements for the years ended December 31, 2019 and 2018 do not reflect adjustments that would be necessary if the going concern basis was not appropriate. As such, adjustments would then be necessary to the carrying amounts of the Company's assets, liabilities, revenues, expenses, and financial position. Such adjustments, if required, could be material.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The financial statements were authorized for issue by the Board of Directors on May 21, 2020.

The financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue operation in the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

(b) Basis of consolidation

These consolidated financial statements include the accounts of Sugarbud and its wholly owned subsidiary, Trichome Holdings Corp. ("Trichome"). Trichome is fully consolidated from the date of acquisition, being the date of which the Company obtained control, and continues to be consolidated until such control ceases. The financial statements of the subsidiary 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 intra-company transactions are fully eliminated upon consolidation.

2. Basis of preparation (continued)

(c) Basis of measurement

These financial statements have been prepared on the historical cost basis except for share based payment transactions and certain financial instruments which are measured at fair value.

(d) Standards and amendments adopted during the year

IFRS 16, Leases

IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term greater than twelve months, unless the underlying asset's value is insignificant. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Company implemented a single accounting model, requiring lessees to recognize assets and liabilities for all leases excluding exceptions listed in the standard. The Company elected to apply practical expedients for short term leases and for leases for which the underlying asset is of low value. At inception of a contract, the Company assesses whether a contract is, or contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The right-of-use assets are initially measured at cost, which comprises:

i. the amount of the initial measurement of the lease liability;
ii. any lease payments made at or before the commencement date, less any lease incentives; and,
iii. any initial direct costs incurred by the lessee.

After the commencement date, the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability. Depreciation is calculated using the straight-line method over the estimated useful life on the same basis as owned assets, or where shorter, over the term of the respective lease. If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the Company depreciates the right of-use asset from the commencement date to the end of the useful life of the underlying asset.

Asset class	**Useful life**
Vehicles	4 years
Equipment	3 – 6 years
Building leases	5 – 10 years

The lease liability is initially measured at the present value of the lease payments that are not paid at that date comprised of:

i. fixed payments, less any lease incentives receivable;
ii. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
iii. amounts expected to be payable by the lessee under residual value guarantees;
iv. the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and,
v. payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the lessee’s incremental borrowing rate. The weighed average incremental borrowing rate applied to leases subject to transition is 6.0%.

2. Basis of preparation (continued)

The lease term determined by the Company comprises:

i. non-cancellable period of lease contracts,
ii. periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and,
iii. periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

The Company has elected to apply the modified retrospective approach and after evaluating the impact of the new standard on the opening retained earnings balance, the Company has concluded that the impact is immaterial.

In applying the modified retrospective approach, the Company has taken advantage of the following practical expedients:

(e) A single discount rate has been applied to portfolios of leases with reasonably similar characteristics; Leases with a remaining term of twelve months or less from the date of application have been accounted for as short-term leases even though the initial term from lease commencement have been more than twelve months.

The aggregate lease liability recognized in the statement of financial position at January 1, 2019 can be reconciled as follows:

Operating lease commitment as at December 31, 2018	$	148,221
Effect of discounting those lease commitments	$	(52,740)
Balance as at January 1, 2019	$	95,481

A corresponding right-of-use asset of $95,481 has been recognized in the consolidated statement of financial position as at January 1, 2019.

3. Significant accounting policies

(a) Property, plant and equipment ("PP&E"):

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset consists of its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use. The Company capitalizes borrowing costs on qualifying capital construction projects. Upon the asset becoming available for use, capitalization of borrowing costs ceases, and depreciation commences on a straight-line basis over the estimated useful life of the related asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Depreciation of each asset is calculated using the straight-line method to allocate its cost less its residual.

Depreciation is calculated using the following terms and methods:

Asset class	Depreciation method	Depreciation term
Production facility	Straight-line	40 years
Equipment	Straight-line	3 – 10 years
Construction in progress	Not depreciated	No term
Land	Not depreciated	No term

Intangible assets

Intangible assets are measured at cost less depreciation. Depreciation is provided on a straight-line basis and over the useful life of the corresponding Stavely facility.

Asset class	Depreciation method	Depreciation term
Intangible asset – Health Canada Licenses	Straight-line	40 years – useful life of corresponding facility

3. Significant accounting policies (continued)

(b) Biological assets:

The Company measures biological assets, consisting of cannabis plants, at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the results of operations of the related period. The Company does not recognize the mother plants used for cloning the cannabis plants on the consolidated statement of financial position, since such plants are under the scope of IAS 16 – Property, Plant and Equipment, but have a useful life of less than one year.

While the Company's biological assets are within the scope of IAS 41 Agriculture, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 Inventories. They include the direct cost of seeds and growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included, as well as depreciation on production equipment and overhead costs such as rent to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as incurred, and they will be subsequently recorded within the line item 'cost of goods sold' on the consolidated statement of loss in the period that the related product is sold. Unrealized fair value gains and losses on growth of biological assets are recorded in a separate line on the face of the consolidated statement of loss. They are incurred, and subsequently recorded within the line item 'cost of goods sold' on the consolidated statement of loss in the period that the related product is sold.

(c) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment and intangible assets are tested for impairment when there are indicators of impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value less costs to sell and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in net loss equal to the amount by which the carrying amount exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

(d) Share based payments:

The Company accounts for its stock options using the fair value method. The options have an exercise price equal to the fair value of the security at the date of grant. The fair value of each option is estimated on the date of grant using a Black-Scholes option-pricing model. The fair value is charged to loss and comprehensive loss over the vesting year with a corresponding increase to contributed surplus. The Company estimates a forfeiture rate on the grant date based on weighted average historical forfeitures and the rate is adjusted to reflect the actual number of options that actually vest. The expected life of the options granted is estimated, based on the Company's best estimate, for the effects of non-transferability, exercise restrictions and behavioural patterns.

(e) Financial instruments:

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) those to be measured subsequently at fair value through profit or loss ("FVTPL"); (ii) those to be measured subsequently at fair value through other comprehensive income ("FVOCI"); and (iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

3. Significant accounting policies (continued)

(e) Financial instruments: (continued)

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics and management intent. Cash, investments and terms deposits are classified as FVTPL. Accounts payable and term loans are at amortized cost.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Financial assets at fair value through comprehensive income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

3. Significant accounting policies (continued)

(e) Financial instruments: (continued)

Financial instrument de-recognition

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognized when the obligation is discharged, cancelled or expired.

(f) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(g) Financing charges:

Financing charges comprises of interest expense on bank borrowings, accretion on decommissioning obligations and accretion of deferred financing charges.

(h) Tax:

Tax regulations and legislation and the interpretations thereof in which the Company operates are subject to change. As such, taxes are subject to measurement uncertainty.

Deferred tax liabilities are recognized when there are taxable temporary differences that will reverse and result in a future outflow of funds to a taxation authority. The Company records a provision for the amount that is expected to be settled, which requires the application of judgment as to the ultimate outcome. Deferred tax liabilities could be impacted by changes in the Company's estimate of the likelihood of a future outflow and the expected settlement amount. As such, there may be a significant impact on the financial statements of future periods.

Deferred tax assets are recognized to the extent that it is probable that the deductible temporary differences will be recoverable in future periods. The recoverability assessment involves a significant amount of estimation including an evaluation of when the temporary differences will reverse, an analysis of the amount of future taxable income, the availability of cash flow to offset the tax assets when the reversal occurs and the application of tax laws. To the extent that assumptions used in the recoverability assessment change, there may be a significant impact on the financial statements of future periods.

In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied when the asset is realized or liability settled, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(i) Loss per share:

Basic loss per share is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the weighted average number of common shares outstanding for the effects of dilutive instruments such as options and warrants.

3. Significant accounting policies (continued)

(j) Fair value measurements:

The carrying value of cash, which is measured using level 1 inputs, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of those instruments.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- 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.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

(k) Discontinued operations:

A discontinued operation is a component of the Company that has either been disposed of or that is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations; (b) is part of a single plan to dispose of a separate major line of business or geographical area of operations; or is a subsidiary acquired exclusively with a view to resale. Assets, liabilities, comprehensive loss, and cash flows relating to a discontinued operation of the Company are segregated and reported separately from the continuing operations of the Company. The consolidated statements of loss and comprehensive loss is re-presented as if the operation had been discontinued from the start of the comparative year.

(l) Operating segments:

Prior to the disposition of the Company's oil and gas assets, the Company was operating in two operating segments – (i) cannabis; (ii) crude oil and natural gas. The oil and gas segment has been classified as discontinued operations (note 12). As a result, the cannabis segment is reflected in the Company's consolidated statements of financial position and consolidated statements of loss and comprehensive loss, and the oil and gas segment is separately disclosed.

4. Significant accounting judgments 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 expenses during the reporting year. 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 judgments 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, management has made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the financial statements:

(a) Biological assets:

In calculating the value of the biological assets, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, expected selling and list prices and expected yields for the cannabis plants. Further information on estimates used in determining the fair value of biological assets is contained in Note 9.

(b) Share based payments:

The fair value of stock options granted is recognized using the Black-Scholes option pricing model. Measurement inputs include the Company's share price on the measurement date, the exercise price of the options, the expected volatility of the Company's shares, the expected life of the options, expected dividends and the risk-free rate of return. The Company estimates volatility based on the historical share price in the publicly traded markets. The expected life of the options is based on historical experience and estimates of the holder's behavior. Dividends are not factored in as the Company does not expect to pay dividends in the foreseeable future. Management also makes an estimate of the number of options that will be forfeited, and the rate is adjusted to reflect the actual number of options that vest.

4. Significant accounting judgments estimates and assumptions (continued)

(c) Estimated useful lives, residual values and depreciation of property, plant and equipment:

Depreciation of property, plant and equipment is dependent upon estimates of useful lives and residual values, which are determined through the exercise of judgment. The assessment of any impairment of these assets' is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

(d) Estimated useful lives and amortization of intangible assets:

The Company employs significant estimates to determine the estimated useful lives of intangible assets, considering the nature of the asset, contractual rights, expected use and review of asset useful lives. The Company reviews amortization methods and useful lives annually or when circumstances change and adjusts its amortization methods and assumptions prospectively.

(e) Impairment of non-financial assets:

Impairment testing requires management to make estimates related to future cash flow projections and market trends. Impairment of property, plant and equipment and intangible assets is influenced by judgment in defining a cash generating unit and determining the indicators of impairment and estimates used to measure impairment losses.

(f) IFRS 16, Leases:

In calculating the lease obligation, initial measurement is based on the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the lessee's incremental borrowing rate.

5. Financial risk management

The main financial risks affecting the Company are as follows:

(a) Credit risk:

The maximum exposure to credit risk at the financial position date was equal to the carrying value of accounts receivable. Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers. The carrying amount of accounts receivable and cash represents the maximum exposure to credit risk as at December 31, 2019 and 2018.

(b) Market risk:

Market risk consists of foreign currency and interest rate risks.

(i) Foreign currency exchange risk:

Foreign currency exchange rate risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company had no forward exchange rate contracts or foreign denominated assets or liabilities in place as at or during the years ended December 31, 2019 and 2018.

(ii) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. A 1% change in interest rates would have a $20,400 (2018 - $nil) impact on the loss and comprehensive loss for the year.

(c) Liquidity Risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking harm to the Company's reputation. The Company prepares capital expenditures budgets which are regularly monitored and updated as considered necessary. As well, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, the Company has a demand operating facility which is reviewed annually by the lender.

5. Financial risk management (continued)

(d) Capital management:

The Company's objective when managing capital is to maintain a capital structure which allows it to execute its growth strategy through strategic acquisitions and expenditures. The Company considers its capital structure to include working capital and shareholders' equity.

The Company manages its capital structure and makes adjustments by continually monitoring business conditions including: the current economic conditions; the risk characteristics of the Company's cannabis assets; current and forecasted net debt levels; current and forecasted commodity prices; and other factors that influence commodity prices and funds from operations. In order to maintain or adjust the capital structure, the Company will consider: the current level of bank credit available from the Company's lenders; the sale of assets; limiting the size of the capital expenditure program; issuance of new equity if available on favourable terms.

6. Fair value measurements

The Company's financial instruments are measured using level 1 inputs, except for the Company's investment in the Inner Spirit Holdings Ltd. ("Inner Spirit") common share purchase warrants, which are valued using level 2 inputs (note 13).

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- 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.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

7. Accounts receivable

The accounts receivable balance includes a goods and services tax receivable of $43,044.

The following is a table with an aging analysis of the outstanding accounts receivable as at December 31, 2019:

Period Outstanding		**December 31, 2019**		December 31, 2018
< 30 days	**$**	**43,044**	$	1,936,369
31 to 60 days		**10,500**		37,210
61 to 90 days		**-**		278,729
Over 90 days		**28,200**		64,934
Grand Total	**$**	**81,744**	$	2,317,242

8. Retail assets held for sale

	Amount
Balance at December 31, 2018 and 2017	-
Transfer from PPE (note 11)	$364,880
Transfer from ROU assets (note 20)	620,045
Impairment on reclassification of retail assets held for sale	(118,411)
Balance at December 31, 2019	$866,514

During 2019, the Company commenced the process of disposing of its retail assets. In accordance with IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations, the retail assets held for sale were assessed for impairment based on fair value less costs of disposal. The fair value was measured using the price at which the Company expects to receive for the disposal group less estimates for the costs of disposal. The fair value less costs of disposal was lower than the carrying value of the disposal group resulting in recognition of a loss of $118,411 which is on the consolidated statement of loss and comprehensive loss. Subsequent to the year ended December 31, 2019, the Company completed the sale of the retail assets (note 25).

9. Biological assets

Biological assets are comprised of:

	Amount
Balance at December 31, 2018	-
Production costs capitalized	$108,541
Decrease in fair value due to biological transformation	($38,469)
Balance at December 31, 2019	$70,072

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

(a) Average selling price per gram: calculated as the average selling price of cannabis, adjusted for expectations about future pricing;
(b) Yield: consists of the number of grams of finished cannabis that is expected per cannabis plant;
(c) Post-harvest costs: calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants post-harvest.

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

10. Intangible asset

	Amount
Balance at December 31, 2017	-
Additions	$2,611,204
Balance at December 31, 2018	$2,611,204
Amortization	($13,056)
Balance at December 31, 2019	$2,598,148

On October 23, 2018, the Company acquired all of the issued and outstanding shares in the capital of Grunewahl, whose subsidiary was a late-stage applicant to become a licensed producer under the Access to Cannabis for Medical Purposes Regulations ("ACMPR") which were amended and concurrently restated as the Federal Regulations on October 17, 2018. Pursuant to the Acquisition, the Company issued an aggregate of 19,259,993 Common Shares to former holders of shares in the capital of Grunewahl and 2114152 Alberta Ltd., a wholly owned subsidiary of the Company, which amalgamated with Grunewahl to form Trichome. The value of the acquisition was based on SugarBud's market price of $0.11 per share on October 23, 2018, resulting in a value of $2,118,600 plus a $490,000 cash payment made to Grunewahl shareholders. In connection with the acquisition of Grunewahl, SugarBud acquired an intangible asset related to the Company's Health Canada license application.

During the year ended December 31, 2019, Sugarbud received its cultivation, processing and medical sales license ("the Licenses") from Health Canada in respect to Phase 1a of the Company's Stavely Facility ("Stavely Facility"). During 2019, the Company began amortizing its intangible asset as it was available for its intended use upon receipt of the Licenses.

11. Property, plant and equipment

		Land	Stavely Facility	Computer equipment	Retail	Other	Oil & gas assets (discontinued operations)		Total assets
Cost									
At December 31, 2017	$	-	-	4,411	-	4,014	20,914,183	$	20,922,608
Additions		323,000	6,409,108	46,227	306,200	128,420	150,799		7,363,754
Disposals		-	-	-	-	-	(10,452,902)		(10,452,902)
At December 31, 2018		323,000	6,409,108	50,638	306,200	132,434	10,612,080		17,833,460
Additions		-	4,269,926	13,467	58,680	4,456	-		4,346,529
Disposals		-	(419,483)	-	-	-	-		(419,483)
Transfer to retail assets held for sale (note 8)		-	-	-	(364,880)	-	-		(364,880)
At December 31, 2019	**$**	**323,000**	**10,259,551**	**64,105**	**-**	**136,890**	10,612,080	**$**	**21,395,626**
Accumulated depreciation									-
At December 31, 2017	$	-	-	-	-	-	(10,245,665)	$	(10,245,665)
Depreciation		-	-	-	-	-	(366,415)		(366,415)
At December 31, 2018		-	-	-	-	-	(10,612,080)		(10,612,080)
Depreciation		-	(200,856)	(3,205)	-	(419)	-		(204,480)
At December 31, 2019	**$**	**-**	(200,856)	**(3,205)**	**-**	**(419)**	(10,612,080)	**$**	(10,816,560)
Net book value									
At December 31, 2018	$	323,000	6,409,108	50,638	306,200	132,434	-	$	7,221,380
At December 31, 2019	**$**	**323,000**	**10,058,695**	**60,900**	**-**	**136,471**	**-**	**$**	**10,579,066**

During the year ended December 31, 2019, the Company completed the construction of the Stavely Facility. With the receipt of the Licenses, management determined the asset was available for its intended use and began depreciating the Stavely Facility in 2019 using the straight-line method of depreciation over its useful life of 40 years.

During the year ended December 31, 2019, the Company entered into an agreement in respect of equipment financing with Grand HVAC and completed a sale and lease buyback of capital equipment for $0.419 million.

During the year ended December 31, 2019, the Company capitalized $100,129 of borrowing costs to the Stavely Facility related to the Pillar Capital Facility (the "Pillar Credit Facility").

12. Discontinued operations

Effective as of December 31, 2018, the Company completed the sale of all of its oil and gas assets for gross proceeds of approximately $1.75 million in cash. The disposition eliminates approximately $4.1 million of asset retirement obligations associated with the assets.

	Year ended December 31, 2019	**Year ended December 31, 2018**
Revenue		
Oil and natural gas sales	$ -	$ 1,885,600
Royalties	-	(169,068)
Net revenue	-	1,716,532
Expenses		
Production, operating and transportation	-	826,096
General and administrative	-	669,531
Finance expense	-	56,357
Depletion and depreciation	-	366,415
Total expenses	-	1,918,399
Comprehensive loss from discontinued operations	$ -	$ (201,867)
Loss on other items	-	(291,929)
Loss on disposition of oil and gas assets	-	(4,290,937)
Net comprehensive loss from discontinued operations	-	(4,784,733)

13. Investment

	December 31, 2019	December 31, 2018
Balance, beginning of year	$937,599	-
Additions	-	$1,125,000
Unrealized (loss) gain on investments	(81,725)	5,199
Realized gain on investments	465,027	46,692
Proceeds from disposition	(1,304,187)	(239,292)
Balance, end of year	**$16,714**	$937,599

During the year ended December 31, 2019, the Company sold 6,216,000 Inner Spirit common shares for proceeds of $1,304,187. As at December 31, 2019, the Company holds 3,750,000 common share purchase warrants of Inner Spirit valued at $16,714.

13. Investment (continued)

The Black-Scholes option pricing model, using the following inputs:

Year ended	December 31, 2019	December 31, 2018
Volatility	96%	74%
Life	0.5 years	1.5 years
Risk-free interest rate	1.65%	1.96%
Exercise price	$0.30	$0.30
Stock price	$0.115	$0.135
Dividend yield	nil	nil

14. 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

Year ended December 31, 2019	Shares		Amount
Balance, beginning of year	355,463,381	$	33,487,057
Issuance of common shares (i)	18,500,000		925,000
Common shares to be issued (ii)	16,372,075		900,464
Exercise of warrants (iii)	3,399,743		339,974
Exercise of stock options (iv)	33,333		3,625
Share issuance costs	-		(34,781)
Balance, end of year	**393,768,532**	**$**	**35,621,339**

(i) During the year ended December 31, 2019, Sugarbud completed a non-brokered private placement (“2019 Private Placement”) for total proceeds of $925,000. Pursuant to the private placement, Sugarbud issued a total of 18,500,000 units ("2019 Private Placement Units") of Sugarbud at a price of $0.05 per 2019 Private Placement Unit. Each 2019 Private Placement Unit was comprised of one Common Share and one Common Share purchase warrant. Each warrant entitles the holder to purchase one Common Share at a price of $0.10 until November 18, 2021, subject to early expiry in the event that the 5-day volume weighted average trading price of the Common Shares equals or exceeds $0.125.

(ii) During the year ended December 31, 2019, Sugarbud completed a rights offering (“2019 Rights Offering) to holders ("Shareholders") of Common Shares. Under the 2019 Rights Offering, Shareholders subscribed for and purchased an aggregate of 16,372,075 units (each, a "2019 Rights Offering Unit"), at a price of $0.055 per 2019 Rights Offering Unit, resulting in gross proceeds to Sugarbud of $900,464. Each 2019 Rights Offering Unit consists of one Common Share and one Common Share purchase warrant (each, a "2019 Rights Offering Warrant"). Each 2019 Rights Offering Warrant entitles the holder thereof to purchase one Common Share at a price of $0.10 until December 20, 2021, subject to early expiry in the event that the 5-day volume weighted average trading price of the Common Shares equals or exceeds $0.125. The Company issued the Common Shares subsequent to the year ended December 31, 2019.

(iii) During the year ended December 31, 2019, 3,399,743 common share purchase warrants (“2018 Private Placement Warrants”) issued in connection with the 2018 Private Placement (“2018 Private Placement”) and the 2018 Rights Offering (“2018 Rights Offering”) were exercised at a price of $0.10 per Common Share for total proceeds of $339,974.

(iv) During the year ended December 31, 2019, 33,333 stock options were exercised for total proceeds of $3,625.

14. Share capital (continued)

Year ended December 31, 2018	Shares		Amount
Balance, beginning of year	88,950,484	$	14,940,681
Issuance of common shares (i)	122,222,222		8,250,000
Issuance of common shares (ii)	110,999,932		7,492,495
Issuance of common shares (iii)	19,259,993		2,118,600
Issuance of common shares	3,369,800		336,980
Exercise of warrants	4,710,950		318,095
Exercise of stock options	5,950,000		492,790
Share issuance costs	-		(462,584)
Balance, end of year	355,463,381	$	33,487,057

(i) On March 21, 2018, the Company completed the 2018 Private Placement of 122,222,222 units at a price of $0.0675 per unit for gross proceeds of $8,250,000. Each unit was comprised of one Common Share and, in the case of subscriptions by the directors, officers, other insiders of the Company, together with additional subscribers identified by such persons, one 2018 Private Placement Warrant and, in the case of all other subscribers, one half of one 2018 Private Placement Warrant. Each whole 2018 Private Placement Warrant entitles the holder to purchase one Common Share at a price of $0.10 for a period of five years.

(ii) During the year ended December 31, 2018, the Company received final approval from the TSXV to issue Common Shares and common share purchase warrants ("Warrants") pursuant to the fully subscribed 2018 Rights Offering. Shareholders subscribed for and purchased an aggregate of 110,999,932 Common Shares and 55,499,966 2018 Rights Offering Warrants for total approximate proceeds of $7.5 million. Each whole 2018 Rights Offering Warrant entitles the holder to purchase one Common Share at a price of $0.10.

(iii) During the year ended December 31, 2018, the Company acquired all of the issued and outstanding shares in the capital of Grunewahl, whose subsidiary was a late-stage applicant to become a licensed producer under the ACMPR which were amended and concurrently restated as the Federal Regulations on October 17, 2018. Pursuant to the Acquisition, the Company issued an aggregate of 19,259,993 Common Shares to former holders of shares in the capital of Grunewahl and 2114152 Alberta Ltd., a wholly-owned subsidiary of the Company, which amalgamated with Grunewahl to form Trichome.

15. Warrants

Year ended December 31, 2019	Warrants		Weighted average exercise price
Balance, beginning of year	145,059,432	$	0.0916
Warrants exercised (i)	(3,399,743)		0.1000
Warrants expired (ii)	(2,142,856)		0.1400
Warrants issued (iii)	18,965,600		0.1000
Warrants issued (iv)	16,372,075		0.1000
Warrants issued (v)	1,000,000		0.1600
Balance, end of year	**175,854,508**	**$**	**0.0929**

(i) During the year ended December 31, 2019, 3,399,743 warrants issued in connection with the 2018 Private Placement and the 2018 Rights Offering were exercised at a price of $0.10 per Common Share for total proceeds of $339,974.

15. Warrants (continued)

(ii) During the year ended December 31, 2019, 2,142,856 warrants expired in connection with the 2014 private placement.(iii) During the year ended December 31, 2019, Sugarbud issued a total of 18,500,000 warrants (the "2019 Private Placement Warrants") in connection with the 2019 Private Placement. Each 2019 Private Placement Warrant entitles the holder to purchase one Common Share at a price of $0.10 until November 18, 2021, subject to early expiry in the event that the 5-day volume weighted average trading price of the Common Shares equals or exceeds $0.125.

(iii) Sugarbud has also issued 465,600 finders non-transferable warrants ("Finder Warrants") to purchase Common Shares in proportion to the number of Units issued to investors as a result of such finder's efforts. Each Finder Warrant entitles the holder to purchase one Common Share at a price of $0.10 until November 18, 2021, subject to early expiry in the event that the 5-day volume weighted average trading price of the Common Shares equals or exceeds $0.125.

(iv) During the year ended December 31, 2019, Sugarbud issued a total of 16,372,075 warrants (the "2019 Rights Offering Warrants") in connection with the 2019 Rights Offering. Each 2019 Rights Offering Warrant entitles the holder thereof to purchase one Common Share at a price of $0.10 until December 20, 2021, subject to early expiry in the event that the 5-day volume weighted average trading price of the Common Shares equals or exceeds $0.125.

(v) During the year ended December 31, 2019, 1,000,000 warrants (the "Pillar Warrants") were issued to Pillar Capital.

Pillar Corp. ("Pillar") in connection with the Pillar Credit Facility at an exercise price of $0.16 per Common Share. The Company attributed a fair value of $158,477 to the warrants by using the Black-Scholes option pricing model. The Pillar Warrants granted during the period are valued using the following inputs.

	Year ended December 31, 2019
Volatility	160%
Life	5 years
Risk-free interest rate	1.46%
Exercise price	$0.16
Stock price	$0.17
Dividend yield	nil

The weighted average remaining life of the Company's warrants as at December 31, 2019 are 3.73 years.

Year ended December 31, 2018	Warrants	Weighted average exercise price
Balance, beginning of year	21,031,745	$ 0.0642
Warrants exercised (i)(ii)	(4,710,950)	0.0675
Warrants expired (iii)	(15,488,889)	0.1400
Warrants issued (iv)	88,727,560	0.1000
Warrants issued (v)	55,499,966	0.1000
Balance, end of year	145,059,432	$ 0.0916

(i) During the year ended December 31, 2018, 3.4 million warrants issued pursuant to a private placement offering of units completed in January 2017 were exercised at a price of $0.055 per Common Share for total proceeds of $187,000.

(ii) During the year ended December 31, 2018, 1.3 million warrants that were issued in connection with the 2018 Rights Offering were exercised at a price of $0.10 per Common Share for total proceeds of $131,095.

(iii) During the year ended December 31, 2018, 15,488,889 warrants expired.

(iv) During the year ended December 31, 2018, 88,727,560 Private Placement Warrants were issued.

(v) During the year ended December 31, 2018, 55,499,966 Rights Offering Warrants were issued.

16. 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 polices of the TSXV require "rolling" stock option plans to be approved on an annual basis by the shareholders of a listed issuer. The approved number and weighted average exercise prices of share options for the year ended December 31, 2019 are as follows:

	Year ended	**December 31, 2019**	Year ended	December 31, 2018
	Options outstanding	**Weighted average exercise price**	Options outstanding	Weighted average exercise price
Outstanding, beginning of year	**32,700,000**	**0.14**	-	-
Granted during the year (i) (ii)	18,440,000	0.07	45,400,000	0.13
Exercised during the year (iii)	(33,333)	0.11	(5,950,000)	0.05
Forfeited during the year	(11,350,000)	0.11	-	-
Cancelled during the year	(400,000)	0.07	(6,750,000)	0.16
Balance, ending of year	**39,356,667**	**0.12**	32,700,000	0.14

(i) During the year ended December 31, 2019, the Company granted 3,100,000 stock options to an executive of Sugarbud. Stock-based compensation expense recognized during the year ended December 31, 2019 was $1,057,732. The weighted average remaining life of the Company's stock options as at December 31, 2019 are 4.16 years.

(ii) During the year ended December 31, 2019, the Company granted 15,340,000 stock options to certain directors, officers, employees and consultants. The options expire five years from the date of grant and are exercisable at a price of $0.065 per common share. The options vest as to one third on the grant date and one third on each of the first and second anniversaries of the grant date. To facilitate the option grant, including 900,000 stock options to CEO and Director, John Kondrosky, certain directors have surrendered 6,750,000 options for cancellation, which were cancelled and returned for future grants under Sugarbud's stock option plan effective immediately.

(iii) During the year ended December 31, 2019, 33,333 stock options were exercised for total proceeds of $3,625.

The Company values stock-based compensation by using the Black-Scholes option pricing model. Stock options granted were valued using the inputs below.

	Year ended December 31, 2019	Year ended December 31, 2018
Volatility	110% - 135%	105%
Life	5 years	5 years
Risk-free interest rate	1.35% - 1.65%	1.96%
Exercise price	$0.065 - $0.16	$0.065 - $0.1850
Stock price	$0.060 - $0.17	$0.065 - $0.18
Dividend yield	Nil	Nil

17. Taxes

The provision for deferred taxes is different from the amount computed by applying the combined statutory Canadian federal and provincial tax rates to pre-tax income for the period. The statutory tax rate decreased from 27% to 26% effective July 1, 2019 due to a decrease in the Alberta provincial tax rate. The tax on the Company's income before tax differs from the amount that would arise using the average tax rate applicable to profits of the Company as follows:

	December 31, 2019	December 31, 2018
Net (loss) income before tax – continuing operations	(7,060,357)	(6,193,095)
Combined federal and provincial tax rate	26.50%	27.00%
Expected tax expense (recovery)	(1,870,995)	(1,672,136)
Tax effects of:		
Stock based compensation	280,299	1,003,411
Impact of future tax rate changes and other	874,920	(1,393,574)
Changes in unrecognized deferred tax assets	715,776	2,062,299
Deferred tax expense (recovery)	$ -	$ -

The following provides the details of unrecognized deductible temporary differences and unused losses for which no deferred tax asset has been recognized:

	December 31, 2019	December 31, 2018
Share issue costs	27,825	9,967
Property, plant and equipment and other	1,750,570	
Non-capital loss carry forwards	16,855,263	9,169,101

No deferred tax asset has been recognized in respect of the following losses and temporary differences as it is not considered probable that sufficient future taxable profit will allow the deferred tax asset to be recovered. The Company's non-capital losses expire as follows:

	December 31, 2019	December 31, 2018
2028	$ 773,349	$ 773,349
2029	348,535	348,535
2030	237,852	237,852
2031	-	-
2032	6	6
2033	217,647	217,647
2034	489,713	489,713
2035	1,389,873	1,389,873
2036	1,892,937	1,892,937
2037	784,578	784,578
2038	4,264,952	3,034,611
2039	6,455,821	-
	16,855,263	$ 9,169,101

18. Loss per share

	Year ended December 31, 2019	Year ended December 31, 2018
Comprehensive loss per share, basic and diluted from continuing operations	$ (0.02)	$ (0.03)
Weighted average shares outstanding	360,319,452	216,451,475

19. Supplemental cash flow information

		Year ended December 31, 2019		Year ended December 31, 2018
Change in non-cash working capital items:				
Accounts receivable	$	2,111,150	$	(1,993,641)
Prepaid expenses, deposits and other		(55,728)		(397,059)
Biological Assets		(108,541)		-
Accounts payable and accrued liabilities		(474,086)		1,589,506
	$	**1,472,795**	$	(801,194)
Amount related to operating activities	$	**1,472,795**	$	(801,194)

20. Right-of-use assets

		Vehicles	Equipment	Building leases		Total assets
Cost						
Transition to IFRS 16	$	26,957	68,524	-	$	95,481
Additions		229,779	470,865	658,535		1,359,179
Transfer to retail assets held for sale		-	-	(620,045)		(620,045)
At December 31, 2019	**$**	**256,736**	**539,389**	**38,490**	**$**	**834,615**
						-
Accumulated depreciation						-
At January 1, 2019	$	-	-	-	$	-
Depreciation		(38,021)	(28,203)	(38,490)		(104,714)
At December 31, 2019	**$**	**(38,021)**	**(28,203)**	**(38,490)**	**$**	**(104,714)**
						-
Net book value						-
At January 1, 2019	$	26,957	68,524	-	$	95,481
At December 31, 2019	**$**	**218,715**	**511,186**	**-**	**$**	**729,901**

Lease Financing

During the year ended December 31, 2019, Sugarbud entered into an agreement in respect of non-dilutive equipment financing arrangements with Grand HVAC Leasing (the "Capital Equipment Financing"). Pursuant to the Capital Equipment Financing, Sugarbud has the opportunity to utilize equipment financing to advance the final build out and full scale-up of two existing cultivation rooms and one new room. Under the terms of the agreement, Grand HVAC provided Sugarbud with $0.419 million in immediate vendor lease back funds for capital equipment already deployed at the Stavely Facility. The agreement has a six-year term and includes the option to buyout the equipment.

Subsequent to December 31, 2019, the Company completed the sale of all of its retail cannabis assets with two independent arm's length purchasers and two separate transactions for gross proceeds of approximately $220,000 and approximately $100,000 of common shares in one of the purchasers.

Lease obligations

The following represents a maturity analysis of the Company's undiscounted contractual lease obligations as at December 31, 2019:

	2020	2021	2022	2023	2024	Thereafter		Total
Truck lease	71,027	71,781	65,746	27,283	-	-		235,837
Equipment lease	132,489	130,248	129,501	122,481	102,935	90,189		707,843
Total	203,516	202,029	195,247	149,764	102,935	90,189	$	943,680

20. Right-of-use assets (continued)

Discounted lease obligations included in the consolidated statement of financial position:

Current portion	**142,845**
Non-current portion	**591,691**
Total	**$ 734,536**

21. Credit Facility

On June 5, 2019 Sugarbud entered into a secured credit facility with Pillar for up to $5 million (the "Pillar Credit Facility"). The proceeds of the Pillar Credit Facility were used by Sugarbud to support working capital requirements and to continue to equip Phase 1a of its Stavely, Alberta cultivation facility. The Pillar Credit Facility is guaranteed by Sugarbud and its wholly owned subsidiary Trichome. The first $2 million of the Pillar Credit Facility is available for drawdown at Sugarbud's discretion, with draws thereafter subject to approval by Pillar. The Pillar Credit Facility bears interest at 12.5% per annum and has a five-year term but can be due and subject to demand following the first anniversary of the initial draw which occurred in June 2019.

The Pillar Credit Facility has general security executed by the Company, pursuant to which the Company grants the lender a first priority security interest over all present and after acquired personal property of the Company.

As at December 31, 2019, the Company had drawn down the Pillar Credit Facility in the amount of $2,000,000. As a result of the draw down, the Company incurred a facility fee of $63,000 and legal fees and disbursements of $25,000.

	December 31, 2019
Balance, beginning of year	-
Credit facility drawdown	2,000,000
Interest	40,000
Debt issuance costs	(158,477)
Accretion	90,527
Balance, end of year	1,972,050

During the year ended December 31, 2019, 1,000,000 Pillar Warrants were issued to Pillar in connection with the Pillar Credit Facility at an exercise price of $0.16 per Common Share. The Company attributed a fair value of $158,477 to the Pillar Warrants by using the Black-Scholes option pricing model (note 15). The Pillar Warrants were treated as debt issuance costs and recorded as a reduction of the carrying value of the Pillar Credit Facility balance. The Pillar Credit Facility will be accredited back to its carrying value over one year using the effective interest rate method.

22. Related party transactions

The following is a summary of the Company's related party transactions during the year. Compensation of key management personnel may include short-term and long-term benefits as applicable, including salaries and stock options. The key management personnel of the Company are the Company's executive management team and the Board of Directors.

Key management compensation

Year ended	December 31, 2019	December 31, 2018
Stock based compensation	$1,057,732	$3,716,337
Shares for services – non-cash	-	150,000
Compensation paid to directors and officers	104,089	221,598
Compensation paid to key management	911,111	291,141
	$2,072,932	$4,379,076

23. General and administrative expenses

Year ended		December 31, 2019		December 31, 2018
Professional fees	$	1,073,876	$	940,754
Salaries, wages and benefits to employees		2,382,030		454,683
Consulting expenditures		546,739		450,377
Office lease expenditures		132,000		89,583
Advertising		111,007		79,830
Insurance		173,824		78,428
Other expenditures		726,077		257,189
Stavely facility overhead expenditures		419,361		-
General and administrative expenses	$	5,564,914	$	2,350,844

24. Commitments

During the year ended December 31, 2019, the Company entered into a commitment to purchase land in the amount of $960,000, whereby the transaction is scheduled to close in 2020.

25. Subsequent events

Disposition of retail assets

Subsequent to December 31, 2019, the Company completed the sale of all of its retail cannabis business assets with two independent arm's length purchasers in two separate transactions for gross proceeds of approximately $220,000 and approximately $100,000 in value of common shares of one of the purchasers.

Convertible debenture

Subsequent to December 31, 2019, the Company commenced a commercially reasonable "best efforts" marketed public offering (the "Offering") of secured convertible debenture units (each, a "Debenture Unit") at a price of $1,000 per Debenture Unit for gross proceeds of up to a maximum of $4.0 million ($4.6 million in the event the over-subscription option is exercised).

Senior lending facility commitment letter

Subsequent to December 31, 2019, the Company executed a commitment letter with a conventional senior lender in respect of a proposed $5 million credit facility. Subject to the execution of a binding credit agreement, the Company anticipates having access to any funds raised before the end of Q2 2020. The proceeds will be used to replace the Credit Facility, for the expansion of Phase 1a and 1b and for working capital requirements.

COVID-19

Subsequent to December 31, 2019, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.